UICI
Form 10-K405
March 22, 2002

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 001-14953

UICI
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of Incorporation or organization)	75-2044750 (IRS Employer Identification No.)
4001 MCEWEN DRIVE, SUITE 200 DALLAS, TEXAS (Address of principal executive offices)	75244 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(972) 392-6700

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED

Common Stock, $0.01 par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE
(TITLE OF CLASS)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 18, 2002 was $499.4 million.

The number of shares outstanding of $0.01 par value Common Stock, as of March 18, 2002 was 48,416,769.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the annual proxy statement for the annual meeting of stockholders are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS

GENERAL

UICI (together with its subsidiaries, "UICI" or the "Company") offers insurance (primarily health and life) and selected financial services to niche consumer and institutional markets. The Company issues health insurance policies, covering individuals and families, to the self-employed, association group and student markets. During 2001, 2000 and 1999, health insurance premiums were approximately $797.4 million, $651.4 million and $649.5 million, respectively, representing 72%, 64% and 68%, respectively, of UICI's total revenues in such periods.

The Company offers a broad range of health insurance products for self-employed individuals and individuals who work for small businesses. The Company's basic hospital-medical and catastrophic hospital expense plans are designed to accommodate individual needs and include both traditional fee-for-service indemnity (choice of doctor) plans and managed care options, such as a preferred provider organization ("PPO") plan as well as other supplemental types of coverage. The Company markets these higher deductible products through "dedicated" agency sales forces comprised of independent contractor agents that primarily sell the Company's products.

For the student market, UICI offers tailored health insurance programs that generally provide single school year coverage to individual students at colleges and universities. The Company also provides an accident policy for students at public and private schools in kindergarten through grade 12. In the student market, the Company sells its products through in-house account executives that focus on colleges and universities on a national basis. The Company believes that it provides student insurance plans to more universities than any other single insurer.

UICI also issues through its Life Insurance Division life insurance and annuity products to selected niche markets. The life insurance policies and annuity products issued by UICI are marketed through independent agents affiliated with a third party agency. During 2001, 2000 and 1999, total revenues (including premiums and allocated investment income) from the Company's life insurance and annuity business were approximately $94.9 million, $92.4 million and $94.1 million, respectively, representing approximately 9%, 9% and 10%, respectively, of total revenue in each year.

In 2001 the Company began to develop long term care and Medicare supplement insurance products for the senior market and to establish distribution channels for products targeted toward the senior market. For financial reporting purposes the Company has established a Senior Market Division to segregate the reporting of expenses incurred in connection with the development of senior market products. Through December 31, 2001, the Company had realized nominal revenues associated with this Division, and the Company has expensed developmental costs as incurred.

The Company conducts the business of the Self-Employed Agency Division, Student Insurance Division, the Senior Market Division and the Life Insurance Division through its wholly owned insurance company subsidiaries, The MEGA Life and Health Insurance Company ("MEGA"), Mid-West National Life Insurance Company of Tennessee ("Mid-West"), and The Chesapeake Life Insurance Company ("Chesapeake"). MEGA is an insurance company domiciled in Oklahoma and is licensed to issue health, life and annuity insurance policies in all states except New York. Mid-West is an insurance company domiciled in Tennessee and is licensed to issue health, life and annuity insurance policies in Puerto Rico and all states except Maine, New Hampshire, New York, and Vermont. Chesapeake is an insurance company domiciled in Oklahoma and is licensed to issue health and life insurance policies in all states except New Jersey, New York and Vermont. MEGA is currently rated "A- (Excellent)", Mid-West is currently rated "A- (Excellent)," and Chesapeake is currently rated "B++ (Very Good)" by A.M. Best. A.M. Best's ratings currently range from "A++ (Superior)" to "F (Liquidation)." A.M. Best's ratings are based upon factors relevant to policyholders, agents, insurance brokers and intermediaries and are not directed to the protection of investors.

At December 31, 2001, Fitch, Inc. had assigned an insurer financial strength rating of "A" (Strong) to each of MEGA and Mid-West. Fitch's ratings provide an overall assessment of an insurance company's financial strength and security, and the ratings are used to support insurance carrier selection and placement decisions. Fitch's ratings range from "AAA" (Exceptionally Strong) to "D" (Distressed).

Through its Third Party Administration ("TPA") Division, UICI also provides underwriting, claims management and claims administrative services to third party insurance carriers, third party administrators, Blue Cross/Blue Shield organizations and self-administered employer health care plans. On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA unit.

The Company's wholly-owned subsidiary, Academic Management Services Corp. (formerly Educational Finance Group, Inc.) ("AMS"), markets, originates, funds and services primarily federally guaranteed student loans and is a leading provider of student tuition installment plans. AMS seeks to provide solutions for college and graduate school students, their parents and the educational institutions they attend. At December 31, 2001, UICI through AMS held approximately $1.2 billion aggregate principal amount of student loans, of which approximately 87% were federally guaranteed.

UICI holds a significant equity interest (approximately 47% of the issued and outstanding shares at February 12, 2002) in Healthaxis, Inc., a publicly traded corporation (Nasdaq: HAXS) that provides web-based connectivity and applications solutions for health benefit distribution and administration. These solutions, which consist primarily of software products and related services, are designed to assist health insurance payers, third party administrators, intermediaries and employers in providing enhanced services to members, employees and providers.

Until February 2000, UICI marketed credit support services to individuals with no, or troubled, credit experience and assisted them in obtaining a nationally recognized credit card. Effective December 31, 1999, the Company's United CreditServ credit card operations were classified as a discontinued operation for financial reporting purposes, and in September 2000 the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivable portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price of approximately $124.0 million. On January 29, 2001, UICI completed the voluntary liquidation of UCNB in accordance with the terms of a voluntary plan of liquidation approved by the United States Office of the Comptroller of the Currency (the "OCC"). See Note B of Notes to Consolidated Financial Statements and Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company through its Special Risk Division has provided various niche health insurance related products (including "stop loss," marine crew accident, organ transplant and international travel accident products), various insurance intermediary services and certain managed care services. The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. See Note B of Notes to Consolidated Financial Statements and Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company's operating segments include (a) the Insurance segment, which includes the businesses of the Company's Self-Employed Agency Division, the Student Insurance Division, the Life Insurance Division (formerly the Company's OKC Division), the Senior Market Division and the National Motor Club Division (until sold on July 27, 2000); (b) the Financial Services segment, which includes the businesses of Academic Management Services Corp., the business of the Company's Third Party Administrators unit; the Company's investment in Healthaxis, Inc., and (c) Other Key Factors, which include investment income not otherwise allocated to the other segments, interest expense on corporate debt, general expenses relating to corporate operations, variable stock compensation, goodwill amortization and other unallocated items. As discussed above, the businesses of United CreditServ, Inc. and the Company's Special Risk Division have been separately classified as discontinued operations for financial reporting purposes for all years presented.

The Company's principal executive offices are located at 4001 McEwen Drive, Suite 200, Dallas, Texas 75244. The Company's telephone number is (972) 392-6700. The Company maintains a website at www.uici.net.

INSURANCE SEGMENT

SELF-EMPLOYED AGENCY DIVISION

Market. According to the Bureau of Labor Statistics, there were approximately 12 million self-employed individuals in the United States at the end of 2001. The Company has currently in force approximately 250,000 basic health policies issued or coinsured by the Company. UICI believes that there is significant opportunity to increase its penetration in this market.

Products. UICI's basic health insurance plan offerings include the following:

- UICI's Group Basic Hospital-Medical Expense Plan has a $1.0 million lifetime maximum benefit and $500,000 lifetime maximum benefit for each injury or sickness. Covered expenses are subject to a deductible. Covered hospital room and board charges are reimbursed at 100% up to a pre-selected daily maximum. Covered expenses for inpatient hospital miscellaneous charges, same-day surgery facility, surgery, assistant surgeon, anesthesia, second surgical opinion, doctor visits, and ambulance services are reimbursed at 80% to 100% up to a scheduled maximum. This type of health insurance policy is of a "scheduled benefit" nature, and as such, provides benefits equal to the lesser of the actual cost incurred for covered expenses or the maximum benefit stated in the policy. These limitations allow for more certainty in predicting future claims experience and thus future premium increases for this policy are expected to be less than on the catastrophic policy.

- UICI's Group Catastrophic Hospital Expense Plan provides a lifetime maximum benefit for each injury or sickness ranging from $500,000 to $1,000,000. Covered expenses are subject to a deductible and are then reimbursed at a benefit payment rate ranging from 50% to 100% as determined by the policy. After a pre-selected dollar amount of covered expenses has been reached, the remaining expenses are reimbursed at 100% for the remainder of the period of confinement. The benefits for this plan tend to increase as hospital care expenses increase and therefore the premiums for these policies are subject to increase as overall hospital care expenses rise.

- UICI's Group Preferred Provider Plan incorporates managed care features of a PPO, which are designed to control health care costs through negotiating discounts with a PPO network. Benefits are structured to encourage the use of providers with which the Company has negotiated lower fees for the services to be provided. The savings from these negotiated fees reduce the costs to the individual policyholders. The policies that provide for the use of a PPO impose a higher deductible and co-payment if the policyholder uses providers outside of the PPO network.

Each of the Company's basic insurance policies is available with a "menu" of various options (including various deductible levels, coinsurance percentages and limited riders that cover particular events such as outpatient accidents, doctors' visits and prescription drugs), enabling the insurance product to be tailored to meet the individual needs of the policyholder.

During 2001, the Company developed and began to offer new ancillary product lines that provide protection against short-term disability, as well as a combination product that provides benefits for life, disability and critical illness. These products have been designed to further protect against risks to which the Company's core self-employed customer is typically exposed.

The Self-Employed Agency Division generated revenues of $700.4 million, $566.4 million and $566.8 million (63%, 56% and 59% of total revenue) in 2001, 2000 and 1999, respectively.

Marketing and Sales. The Company's marketing strategy in the self-employed market is to remain closely aligned with dedicated agent sales forces. Substantially all of the health insurance products issued by the Company are sold through dedicated independent contractor agents associated with the Company.

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The Company's agents are independent contractors, and all compensation that agents receive from the Company is based upon the agents' levels of sales production. UGA -- Association Field Services ("UGA") and Cornerstone Marketing of America ("Cornerstone") (the Company's principal marketing divisions) are each organized into geographical regions, with each geographical region having a regional director, two additional levels of field leaders and writing agents (i.e., the agents that are not involved in management).

UGA and Cornerstone are each responsible for the recruitment and training of their field leaders and writing agents. UGA and Cornerstone generally seek persons with previous sales experience. The process of recruiting agents is extremely competitive. The Company believes that the primary factors in successfully recruiting and retaining effective agents and field leaders are the policies regarding advances on commissions, the quality of the leads provided, the availability and accessibility of equity ownership plans, the quality of the products offered, proper training, and agent incentives and support. Classroom and field training is made available to the agents under the direction of the field leaders.

The health insurance products issued by the Company are primarily issued to members of various independent membership associations that endorse the products and act as the master policyholder for such products. Two principal membership associations in the self-employed market for which the Company underwrites insurance are the National Association for the Self-Employed ("NASE") and the Alliance for Affordable Services ("AAS"). The associations provide their membership with a number of endorsed products, including health insurance underwritten by the Company. Individuals generally may not obtain insurance under the associations' master policies unless they are members of the associations. UGA agents and Cornerstone agents also act as enrollers of new members for the associations. Although the Company has no formal agreements with these associations requiring the associations to continue as the master policyholder and endorse the Company's insurance products to their respective members, the Company believes it is in good standing with these associations.

Leads for the agents of UGA and Cornerstone are generated by UICI Marketing, Inc. (the Company's direct response marketing group), which administers two call centers with a capacity of approximately 250 telephone service representatives. From various sources of data, a pool of approximately 7.0 million names has been developed. Individuals in this pool and other self-employed individuals with an interest in obtaining the benefits of an association membership, including health insurance, may respond to lead generation efforts via direct response channels, including telemarketing, direct mail, radio and TV commercials, e-mail, and Internet websites maintained by the Company. The names of persons expressing an interest are, in turn, provided as leads to the Company's agents, which the Company believes results in a higher "close" rate than would be the case if the agents made unsolicited calls on prospective customers.

Policy Design and Claims Management. The Company's traditional indemnity health insurance products are principally designed to limit coverages to the occurrence of significant events that require hospitalization. This policy design, which includes high deductibles, reduces the number of covered claims requiring processing, thereby controlling administrative expenses. The Company seeks to price its products in a manner that accurately reflects its underwriting assumptions and targeted margins, and it relies on the marketing capabilities of its dedicated agency sales forces to sell these products at prices consistent with these objectives.

The Company maintains administrative centers with full underwriting, claims management and administrative capabilities. The Company believes that by processing its own claims it can better assure that claims are properly processed and can utilize the claims information to periodically modify the benefits and coverages afforded under its policies.

The Company has also developed an actuarial data warehouse, which is a critical risk management tool that provides the Company's actuaries with rapid access to detailed exposure, claim and premium data. This state-of-the-art analysis tool enhances the actuaries' ability to design, monitor and adequately price all of the Company's insurance products.

Preferred Provider Products. In order to further control health care costs, in 1995 the Company incorporated into certain of its health plans managed care features of a PPO. These health plans incorporate

managed care features of a PPO through negotiated discounts with a PPO network. The health plans that provide the PPO option generally provide a greater level of benefits for services performed within the PPO network in the form of lower deductibles and co-payments compared to out-of-network services. The value of the network discount is reflected in the form of lower rates and discounts on covered charges.

Coinsurance Arrangements. Prior to 1996, a substantial portion of the health insurance policies sold by UGA agents were issued by AEGON USA, Inc. ("AEGON") and coinsured by the Company. Effective April 1, 1996, the Company acquired the underwriting, claims management and administrative capabilities of AEGON related to products coinsured by the Company. Following this transaction, the agents of UGA began to market health insurance products directly for the Company rather than through the coinsurance arrangement. The Company retains 100% of the premiums and pays all of the costs of such new policies. Under the terms of its coinsurance agreement, AEGON has agreed to cede (i.e., transfer), and the Company has agreed to coinsure, 60% of the health insurance sold by UGA agents and issued by AEGON. The Company receives 60% of premiums collected and is liable for 60% of commission expenses, administrative costs, claims payments, premium taxes, legal expenses, extra-contractual charges and other payments. The Company and AEGON agreed to maintain the coinsurance agreement for policies issued by AEGON prior to April 1, 1996 and during the transition period ended in 1997. Commencing in May 2001, and in accordance with Assumption Reinsurance Agreements with AEGON, the Company began to assume all of the remaining policies from AEGON as approvals were received from state regulatory authorities. As of December 31, 2001, approximately 75% of the remaining policies have been assumed by the Company from AEGON, and the Company currently anticipates that the balance of the remaining policies will be assumed during 2002. On the policies that have been assumed, the Company has coinsured 40% of the health insurance business to AEGON. The Company has agreed to acquire on December 31, 2002 the remaining 40% of the coinsured business from AEGON based upon a mutually agreed-upon prescribed price.

Acquisition of Health Blocks. From time to time, the Company has acquired and may continue to acquire blocks of health insurance policies or companies that own such blocks. These opportunities are pursued on a case-by-case basis, and revenues from such blocks have generally not represented a material portion of Self-Employed Agency Division revenue.

STUDENT INSURANCE DIVISION

Market. The student market consists primarily of students attending colleges and universities in the United States and Puerto Rico and, to a lesser extent, those attending public and private schools in grades kindergarten through grade 12. Generally, the marketing strategy of the Company has been to focus on college students whose circumstances are such that health insurance may not otherwise be available through their parents. In particular, older undergraduates, graduate and international students often have a need to obtain insurance as "first-time buyers." According to industry sources, there are approximately 2,400 four-year universities and colleges in the United States, which have a combined enrollment of approximately 11.0 million students. Typically, a carrier must be approved and endorsed by the educational institution as a preferred vendor of health insurance coverage to the institution's students. The Company believes that it has been authorized to provide student health insurance plans by more universities than any other single insurer.

Products. The insurance programs sold in the student market are designed to meet the requirements of each individual school. The programs generally provide coverage for one school year and the maximum benefits available to any individual student enrolled in the program range from $10,000 to $1,000,000, depending on the coverage level desired by the school.

The Student Insurance Division had revenues of $126.1 million, $111.5 million and $108.0 million in 2001, 2000 and 1999, respectively, representing approximately 11% of total revenues in each such year.

Marketing and Sales. The Company markets to colleges and universities on a national basis through in-house account executives whose compensation is based primarily on commissions. Account executives make presentations to the appropriate school officials and the Company, if selected, is endorsed as the provider of health insurance for students attending that school.

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The kindergarten through grade 12 business is marketed primarily through third party agents and brokers in Washington, Florida, Arizona, Louisiana, Oklahoma, Texas, Colorado, Kansas, Oregon, and California.

LIFE INSURANCE DIVISION

Through the Company's Life Insurance Division (which is based in Oklahoma City, Oklahoma), the Company offers life insurance and annuity products to individuals through its dedicated field force. At December 31, 2001, the Life Insurance Division had over $3.2 billion of life insurance in force and approximately 312,000 individual policyholders. The Life Insurance Division grew historically through acquisitions of closed blocks of life insurance and annuity policies and, more recently, through its efforts to market and sell new life insurance products. In 2001, 2000 and 1999, the Life Division generated revenues of $94.9 million, $92.4 million and $94.1 million, respectively, representing 9%, 9% and 10%, respectively, of total Company revenue in each such year.

The Life Insurance Division has developed life insurance products to be sold using its unique and proprietary needs analysis "Blueprint for Life." The Life Insurance Division hopes to leverage the Company's significant health insurance customer base by positioning itself to offer those customers a universal life, term life and final expense product designed to fit their changing needs.

Through its College Fund Life Insurance Division (based in Norcross, Georgia), the Company's Life Insurance Division offers an interest-sensitive whole life insurance product generally with an annuity rider and a child term rider. The child term rider includes a special provision under which the Company commits to provide private student loans to help fund the named child's higher education if certain restrictions and qualifications are satisfied. Currently, student loans are available in amounts up to $30,000 for students attending undergraduate school and up to $30,000 for students attending graduate school. Loans made under this rider are not funded or supported by the federal government. Qualified loans with a Fair Isaac credit score of 570 and above are guaranteed as to principal and interest by an independent guarantee agency. All other loans made under the rider require additional guarantee fees to be paid by the borrower. As a part of the program, MEGA and Mid-West are qualified lenders under the applicable Department of Education regulations and make available, outside of the Company's insurance subsidiaries' commitment under the rider, student loans under Federal Family Education Loan Programs.

Marketing and Sales. Life insurance products are marketed and sold through the Company's network of dedicated agents.

Acquired Blocks. Historically, the Company's Life Insurance Division grew through opportunistic acquisitions of blocks of life insurance and annuities. In an acquisition of a block of business, the Company assumes policy liabilities and receives assets (net of the purchase price) sufficient, based on actuarial assumptions, to cover such estimated future liabilities. The profitability of a particular block of business depends on the amount of investment income from the assets and the amount of premiums received less the amount of benefits and expenses actually paid. The Company acquired its last block of life insurance and annuities in 1994. Although the Company continues to analyze potential transactions from time to time, the Company believes that the current climate for acquisitions of blocks of life insurance and annuities has become very competitive, making it more difficult to successfully complete acquisitions that meet the Company's acquisition rate of return criteria.

In 1991, the Company entered into an agreement pursuant to which it services a block of policies with life insurance and annuity reserves for an unrelated company. At December 31, 2001, total life insurance and annuity reserves for this block were $70.6 million, which reserves are not reflected on the Company's consolidated balance sheet. The Company receives a fee for servicing the policies and in 1997 also began to participate in 50% of the profits or losses on this business. The Company's consolidated results of operations reflect the servicing fee currently earned and the 50% profit participation.

In August 1994, the Company entered into a similar transaction, pursuant to which the Company acquired a block of life insurance and annuity policies. In conjunction with this acquisition, the Company ceded through a coinsurance agreement 100% of the policy liabilities to an unrelated reinsurer. The acquisition

required no financial investment by the Company. In July 2001, the reinsurer recovered its investment in this block, and the coinsurance agreement was terminated and the company at no cost recaptured all remaining policies.

SENIOR MARKET DIVISION

In 2001 the Company began to develop long term care and Medicare supplement insurance products for the senior market and to establish distribution channels for products targeted toward the senior market. The Company intends to initially offer products of third party insurers until such time as the Company's long term care and Medicare supplement insurance products are fully approved by applicable regulatory authorities for issuance to the senior market. Upon receipt of requisite regulatory approvals, the Company intends to initially reinsure on a coinsurance basis with other insurance companies 40% of the Company's risk with respect to long term care coverage and 20% of its risk with respect to Medicare supplement coverage.

The Company has entered into an agreement with an unaffiliated third party to serve as administrator for the Company's senior age insurance products, in which capacity the third party will underwrite, bill, provide customer service and administer claims for all long-term care and Medicare supplement insurance products to be sold by the Company's two principal insurance subsidiaries.

Senior market products will be distributed initially through independent agents affiliated with Guaranty Senior Assurance (a newly-formed division of MEGA) and through independent agents affiliated with SeniorsFirst LLC, an agency in which the Company holds a 50% ownership interest.

For financial reporting purposes the Company has established a Senior Market Division to segregate the reporting of expenses incurred in connection with the development of senior market products. Through December 31, 2001, the Company has realized nominal revenues associated with this Division, and the Company has expensed developmental costs as incurred.

FINANCIAL SERVICES SEGMENT

ACADEMIC MANAGEMENT SERVICES CORP.

The Company holds a 100% equity interest in Academic Management Services Corp. ("AMS"). AMS (formerly Educational Finance Group, Inc.) markets, originates, funds and services primarily federally guaranteed student loans and is the leading provider of student tuition installment plans. AMS (which is based in Swansea, Massachusetts) seeks to provide financing solutions for college and graduate school students, their parents, and the educational institutions they attend. At December 31, 2001, UICI through AMS held approximately $1.2 billion aggregate principal amount of student loans, of which approximately 87% were federally guaranteed.

AMS primarily makes federally guaranteed loans to students and parents under the Federal Family Education Loan Program (the "FFELP Loan Program"). Four types of loans are currently available under the FFELP Loan Program: (i) loans made to students for which the federal government makes interest payments during periods of school enrollment in order to reduce student interest costs ("Stafford Loans"); (ii) loans made to students for which the federal government does not make such interest payments ("Unsubsidized Stafford Loans"); (iii) supplemental loans made to parents of dependent students ("PLUS Loans"); and (iv) loans to fund consolidation of certain federally-insured obligations of the borrower ("Consolidation Loans"). These loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits and eligibility for interest subsidies.

Stafford Loans are the primary loans extended under the FFELP Loan Program. Students who are not eligible for Stafford Loans based on their economic circumstances may be able to obtain Unsubsidized Stafford Loans. Parents of students are able to obtain PLUS Loans in accordance with their credit standing. Consolidation Loans are available to borrowers holding loans made under the FFELP Loan Program and/or certain other federal programs for the purpose of extending the repayment of such loans -- a primary objective being the reduction of monthly payment size.

In addition to the various federally guaranteed loan programs, AMS offers alternative student loans guaranteed by private insurers (which during 2001 aggregated approximately 11% of AMS' loan originations) and uninsured alternative loans (which during 2001 aggregated approximately 1% of loan originations).

AMS has initially funded its lending business primarily with secured lines of credit and commercial paper facilities extended or administered by various financial institutions. After initial funding, AMS typically refinances groups of loans on a more structured basis by transferring loans to bankruptcy remote, special purpose entities, which in turn issue debt securities secured by the loans. During 1999, AMS established approximately $1.3 billion of such structured funding facilities in three separate transactions, and on January 30, 2002 the Company completed the issuance of $335.0 million principal amount of auction rate notes secured by a pledge of federally- and privately-insured student loans held in the AMS portfolio. For financial reporting and accounting purposes the facilities are classified as financings, with the indebtedness represented by the debt securities recorded as liabilities on the consolidated balance sheet of the Company, and the student loan assets and cash and cash equivalents securing payment of such debt securities recorded as assets on the consolidated balance sheet of the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

In addition, AMS may from time to time in the ordinary course of business sell loans in its portfolio to various secondary market buyers. Decisions to hold or sell loans at any point in time are based on a variety of strategic and financial factors, one of the most prominent being the cash prices being offered by buyers relative to the net present value of the loans if held in the portfolio for duration. Sales of federally insured education loans have typically produced gains on sale recognized in the periods in which the sales occur. During 2001, AMS originated approximately $717.6 million in new loans and sold $474.0 million principal amount of loans, and during 2000, AMS originated approximately $776.1 million in new loans and sold approximately $765.0 million principal amount of loans.

In July 1999, AMS acquired AMS Investment Group, Inc. (the parent of Academic Management Services, Inc.) ("AMS Inc."), based in Swansea, Massachusetts. At the time of acquisition, AMS Inc. was the largest provider of tuition installment plans in the nation. Marketed on behalf of and with the endorsement of colleges, universities, and private secondary schools, tuition installment plans enable parents to pay tuition and related school costs in interest-free monthly installments.

AMS provides loan servicing and administrative services on behalf of participating colleges and universities for federal Perkins loans and privately insured loans through EFG Technologies, Inc., a wholly owned subsidiary based in Winston-Salem, North Carolina. The Perkins Loan program provides low-interest loans to assist needy students in financing the costs of post-secondary education. EFG Technologies services approximately one million loan accounts for approximately 600 colleges, universities and private lenders. In May 2002, EFG Technologies plans to change its name to AMS Servicing Group.

INVESTMENT IN HEALTHAXIS, INC.

At December 31, 2001, UICI held approximately 47% of the issued and outstanding shares of common stock of Healthaxis, Inc. ("HAI") (Nasdaq: HAXS). See Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations and Note E of Notes to Consolidated Financial Statements.

HAI is an emerging technology service firm that provides web-based connectivity and applications solutions for health benefit distribution and administration. These solutions, which consist primarily of software products and related services, are designed to assist health insurance payers, third party administrators, intermediaries and employers in providing enhanced services to members, employees and providers through the application of HAI's flexible technology to legacy systems, either on a fully integrated or on an application service provider (ASP) basis.

HAI generated revenues of $43.8 million, $43.7 million and $46.2 million in 2001, 2000 and 1999, respectively, of which 70%, 63% and 58% were derived from services provided to the Company and its insurance company affiliates. See Note E of Notes to Consolidated Financial Statements.

TPA Division

UICI also historically has provided underwriting, claims management and claims administrative services to third party insurance carriers, third party administrators, Blue Cross/Blue Shield organizations and self-administered employer health care plans. The Company has classified the operations of its subsidiaries UICI Administrators, Inc. (a company engaged in the business of providing third party benefits administration, including eligibility and billing reconciliation), Insurdata Marketing Services, LLC (a subsidiary of the Company engaged in the business of marketing third party benefits administration services) and Barron Risk Management, Inc. as its Third Party Administration ("TPA") Division. While revenues for the TPA Division increased to $24.3 million in 2001 from $18.5 million in 2000, the TPA Division incurred an operating loss of $(2.1) million in 2001 compared to an operating loss of $(1.7) million in 2000.

On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA Division. In the three months ended December 31, 2001, the Company recognized an impairment charge of $2.3 million to its long-lived assets, of which $700,000 represented a write-down of fixed assets (which was included in depreciation in 2001) and $1.6 million represented a write-down of goodwill (which was reflected in goodwill amortization for the full year and fourth quarter of 2001). As a result of the charge in the fourth quarter of 2001, the Company recognized no gain or loss on the sale of UICI Administrators, Inc.

DISCONTINUED OPERATIONS

UNITED CREDITSERV, INC.

Through the Company's United CreditServ, Inc. subsidiary ("United CreditServ"), prior to 2000 the Company marketed credit support services to individuals with no, or troubled, credit experience and assisted such individuals in obtaining a nationally recognized credit card. The activities of United CreditServ were conducted primarily through its wholly-owned subsidiaries United Credit National Bank ("UCNB") (a special purpose national bank, based in Sioux Falls, South Dakota, chartered solely to hold credit card receivables); Specialized Card Services, Inc. (provider of account management and collections services for all of the Company's credit card programs); United Membership Marketing Group, Inc. ("UMMG") (a Lakewood, Colorado-based provider of marketing, administrative and support services for the Company's credit card programs); and UICI Receivables Funding Corporation ("RFC"), a single-purpose, bankruptcy-remote entity through which certain credit card receivables were securitized.

In March 2000, the Board of Directors of UICI determined, after a thorough assessment of the unit's prospects, that UICI would exit from its United CreditServ sub-prime credit card business and, as a result, the United CreditServ unit was reflected as a discontinued operation for financial reporting purposes effective December 31, 1999. On September 29, 2000, the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivables portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price of approximately $124.0 million, and on January 29, 2001, the Company completed the voluntary liquidation of UCNB, in accordance with the terms of a plan of voluntary liquidation approved by the OCC.

The Company's results from discontinued operations in 2001 and the fourth quarter of 2001 included net income after tax in the amount of $3.7 million, associated with the receipt of a $5.7 million cash payment representing the deferred contingent portion of the purchase price in final settlement of the September 2000 sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit. See Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations.

SPECIAL RISK DIVISION

The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. The Company's Special Risk Division has specialized in certain niche health-related products (including "stop loss", marine crew accident, organ

transplant and international travel accident products), various insurance intermediary services and certain managed care services. For the year ended December 31, 2001, the Special Risk Division reported a net loss of $(9.2) million, compared to a net loss of $(2.9) million for the year ended December 31, 2000, which losses were reflected in results from discontinued operations.

REINSURANCE

The Company's insurance subsidiaries reinsure portions of the coverages provided by their insurance products with other insurance companies on both an excess of loss and coinsurance basis. The maximum retention by the Company on one individual in the case of life insurance is $150,000. The Company uses reinsurance for its health insurance business only for limited purposes. The Company does not reinsure any health insurance issued in the self-employed market.

Reinsurance agreements are intended to limit an insurer's maximum loss. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. Although the Company, through coinsurance, assumes risks under policies issued by AEGON, and has occasionally used assumption reinsurance to acquire blocks of insurance from other insurers, it does not regularly assume risks of other insurance companies. See "Business -- Health Insurance-Coinsurance Arrangements."

COMPETITION

INSURANCE

The Company operates in highly competitive markets. The Company's insurance subsidiaries compete with large national insurers, regional insurers and specialty insurers, many of which are larger and have substantially greater financial resources or greater claims paying ability ratings than the Company. In addition to claims paying ability ratings, insurers compete on the basis of price, breadth and flexibility of coverage, ability to attract and retain agents and the quality and level of agent and policyholder services provided. In its other lines of insurance-related business, the Company competes with financial services companies, managed care consultants, and third party administrators, among others. Many of the competitors may have greater financial resources, broader product lines or greater experience in particular lines of business.

STUDENT LOANS

The student loan industry is highly competitive. The Company competes with over 2,000 other lenders. Despite the large number of lenders, the top 100 lenders account for approximately 87% of new loan volume. The Company believes that the volume of new loans originated in 2001 would make it one of the top 10 student loan lenders in 2001. The Company competes by designing and offering an integrated package of government guaranteed and privately guaranteed loan products.

REGULATORY AND LEGISLATIVE MATTERS

HEALTH CARE REFORM; PRIVACY INITIATIVES

The health care industry, as one of the largest industries in the United States, continues to attract much legislative interest and public attention. In recent years, an increasing number of legislative proposals have been introduced or proposed in Congress and in some state legislatures that would effect major changes in the health care system, either nationally or at the state level. Proposals that have been considered include cost controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, patients' bills of rights and requirements that all businesses offer health insurance coverage to their employees. There can be no assurance that future health care legislation or other changes in the administration or interpretation of governmental health care programs will not have a material adverse effect on the business, financial condition or results of operations of the Company.

Recently-adopted legislation and regulations governing the use and security of individuals' nonpublic personal data by financial institutions, including insurance companies, will have a significant impact on the

Company's business and future results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Privacy Initiatives."

INSURANCE REGULATION

The Company's insurance subsidiaries are subject to extensive regulation in their states of domicile and the other states in which they do business under statutes that typically delegate broad regulatory, supervisory and administrative powers to insurance departments. The method of regulation varies, but the subject matter of such regulation covers, among other things: the amount of dividends and other distributions that can be paid by the Company's insurance subsidiaries without prior approval or notification; the granting and revoking of licenses to transact business; trade practices, including with respect to the protection of consumers; disclosure requirements; privacy standards; minimum loss ratios; premium rate regulation; underwriting standards; approval of policy forms; claims payment; licensing of insurance agents and the regulation of their conduct; the amount and type of investments that the Company's subsidiaries may hold, minimum reserve and surplus requirements; risk-based capital requirements; and compelled participation in, and assessments in connection with, risk sharing pools and guaranty funds. Such regulation is intended to protect policyholders rather than investors.

Many states have also enacted insurance holding company laws that require registration and periodic reporting by insurance companies controlled by other corporations. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the controlled insurer and prior notice to, or approval by, the applicable regulator of inter-corporate transfers of assets and other transactions (including payments of dividends in excess of specified amounts by the controlled insurer) within the holding company system. Such laws often also require the prior approval for the acquisition of a significant ownership interest (e.g., 10% or more) in the insurance holding company. The Company's insurance subsidiaries are subject to such laws, and the Company believes that such subsidiaries are in compliance in all material respects with all applicable insurance holding company laws and regulations.

Under the risk-based capital initiatives adopted in 1992 by the National Association of Insurance Commissioners ("NAIC"), insurance companies must calculate and report information under a risk-based capital formula. Risk-based capital formulas are intended to evaluate risks associated with: asset quality; adverse insurance experience; loss from asset and liability mismatching; and general business hazards. This information is intended to permit regulators to identify and require remedial action for inadequately capitalized insurance companies but is not designed to rank adequately capitalized companies. Based on year-end 2001 calculations, the Company's insurance subsidiaries were significantly above required capital levels.

The NAIC revised the Accounting Practices and Procedures Manual ("Manual") in a process referred to as Codification. The revised Manual became effective January 1, 2001. The domiciled states of the Company's domestic insurance subsidiaries (Oklahoma, Tennessee and Texas) adopted the provisions of the Manual. The Manual changed, to some extent, prescribed statutory accounting practices and resulted in changes to the accounting practices that the Company's domestic insurance subsidiaries use to prepare its statutory-basis financial statements.

Statutory accounting changes adopted to conform to the provisions of the Manual are reported as changes in accounting principles in the Company's statutory-based financial statements. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of statutory capital and surplus at the beginning of the year and the amount of statutory capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Company's domestic insurance subsidiaries reported a change in accounting principle, as an adjustment that increased statutory capital and surplus, of $18.6 million as of January 1, 2001. Included in this total adjustment is an increase in statutory capital and surplus of $23.4 million related to deferred tax assets.

The states in which the Company is licensed have the authority to change the minimum mandated statutory loss ratios to which the Company is subject, the manner in which these ratios are computed and the manner in which compliance with these ratios is measured and enforced. Loss ratios are commonly defined as incurred claims divided by earned premiums. Most states in which the Company writes insurance have adopted the loss ratios recommended by the NAIC but frequently the loss ratio regulations do not apply to the types of health insurance issued by the Company. The Company is unable to predict the impact of (i) any changes in the mandatory statutory loss ratios for individual or group policies to which the Company may become subject, or (ii) any change in the manner in which these minimums are computed or enforced in the future. Such changes could result in a narrowing of profit margins and have a material adverse effect upon the Company. The Company has not been informed by any state that it does not meet mandated minimum ratios, and the Company believes that it is in compliance with all such minimum ratios. In the event the Company is not in compliance with minimum statutory loss ratios mandated by regulatory authorities with respect to certain policies, the Company may be required to reduce or refund premiums, which could have a material adverse effect upon the Company.

The NAIC and state insurance departments are continually reexamining existing laws and regulations, including those related to reducing the risk of insolvency and related accreditation standards. To date, the increase in solvency-related oversight has not had a significant impact on the Company's insurance business.

STUDENT LOAN OPERATIONS

A significant portion of the student loans originated by the Company are made under the Federal Family Education Loan Program (the "FFELP Loan Program"), which is subject to periodic legislative reauthorization and interim revision by legislation and regulation. The Higher Education Act, which authorizes most federal aid programs, went through its regular reauthorization process in 1998. The loans made under the FFELP Loan Program include Federal Stafford loans for students and PLUS Loans to parents.

Compliance with legal or regulatory restrictions may limit the ability of the Company's subsidiaries to conduct their operations. A failure to comply may subject the affected subsidiary to a loss or suspension of a right to engage in certain businesses or business practices, criminal or civil fines, an obligation to make restitution or pay refunds or other sanctions, which could adversely affect the manner in which the Company's subsidiaries conduct their business and the Company's results of operations.

State and federal regulation is continually changing and the Company is unable to predict whether or when any such changes will be adopted. It is possible, however, that the adoption of such changes could adversely affect the manner in which the Company's subsidiaries conduct their business and the Company's financial condition or results of operations.

EMPLOYEES

The Company had approximately 2,100 employees at February 19, 2002. The Company considers its employee relations to be good. Agents associated with the Company's UGA, Cornerstone, Guaranty Senior Assurance and SeniorsFirst field forces constitute independent contractors and are not employees of the Company.

ITEM 2. PROPERTIES

The Company owns three office buildings in Tarrant County, Texas, comprising in the aggregate approximately 200,000 square feet of office space. The Company's United CreditServ subsidiary owns one building in Sioux Falls, South Dakota, with approximately 106,000 square feet, which is leased to an unaffiliated third party. AMS owns two office buildings in Swansea, Massachusetts, comprising approximately 60,000 square feet of office space. In addition, the Company and its subsidiaries lease office space at various locations, including its principal executive office located at 4001 McEwen Drive, Dallas, Texas.

ITEM 3. LEGAL PROCEEDINGS

See Note N of Notes to Consolidated Financial Statements, the terms of which are incorporated by reference herein.

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE COMPANY

The Chairman of the Company is elected, and all other executive officers listed below are appointed by the Board of Directors of the Company at its Annual Meeting each year or by the Executive Committee of the Board of Directors to hold office until the next Annual Meeting or until their successors are elected or appointed. None of these officers have family relationships with any other executive officer or director.

NAME OF OFFICER	PRINCIPAL POSITION	AGE	BUSINESS EXPERIENCE DURING PAST FIVE
Ronald L. Jensen.........	Chairman of the Board	71	Mr. Jensen has served as Chairman sin December 1983. In the last five years Jensen also served as President of th Company from October 1997 until Janua 1999.
Gregory T. Mutz..........	President and Chief Executive Officer	56	Mr. Mutz was elected President and Ch Executive Officer in January 1999 and served as Chief Financial Officer fro March 2000 to November 2000. Prior to January 1999, Mr. Mutz served as Chai and Chief Executive Officer of AMLI R Co. (a real estate investment managem firm), which the Company acquired in
Glenn W. Reed............	Executive Vice President and General Counsel	49	Mr. Reed has served in his current position since July 1999. Prior to jo UICI, Mr. Reed was a partner with the Chicago, Illinois law firm of Gardner Carton & Douglas.
Phillip J. Myhra.........	Executive Vice President -- Insurance Group	49	Mr. Myhra has served as an executive officer of the Insurance Group since December 1999 and as Executive Vice President -- Insurance Group of the Company since February 2001. He serve a Director, President and Chief Execu Officer of the Company's insurance subsidiaries. Prior to joining the Company, Mr. Myhra served as Senior V President of Mutual of Omaha.

NAME OF OFFICER	PRINCIPAL POSITION	AGE	BUSINESS EXPERIENCE DURING PAST FIVE
Steven K. Arnold.........	Executive Vice President -- Insurance Group	54	Mr. Arnold joined the Company in Octo 1998 as a consultant. In March 1999, Arnold became Chief Executive Officer the Student Insurance Division and Sp Risk Group of the Company. In August Mr. Arnold was elected a Vice Preside the Company. For the five years prior joining the Company, Mr. Arnold held various positions as a consultant and officer in the health care and system industries.
Matthew R. Cassell.......	Vice President and Chief Financial Officer	38	Mr. Cassell was elected Vice Presiden Chief Financial Officer on November 1 2000. He formerly served as the Compa Vice President -- Strategic Planning commencing in January 2000. Prior to joining UICI, Mr. Cassell served as Director-Finance of Insurdata Incorpo (formerly a wholly owned subsidiary o Company) from 1997 to 1999.
James N. Plato...........	President -- Life Insurance Division	53	Mr. Plato has served as an executive officer and director of the Company's insurance subsidiaries since June 200 During the five years prior to joinin Company, Mr. Plato served as an execu officer and/or director of Ilona Fina Group, 1st Variable Life Insurance Company, Interstate Assurance, Mutual Omaha, and United Presidential Life Insurance Company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's shares are traded on the New York Stock Exchange ("NYSE") under the symbol "UCI". The table below sets forth on a per share basis, for the period indicated, the high and low closing sales prices of the Common Stock on the NYSE.

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2000		
1st Quarter...	$11.5625	$ 6.625
2nd Quarter...	7.25	3.9375
3rd Quarter...	8.5625	6.25
4th Quarter...	7.5625	5.4375
FISCAL YEAR ENDED DECEMBER 31, 2001		

1st Quarter	$ 9.65	$5.9375
2nd Quarter	12.75	8.25
3rd Quarter	16.26	10.70
4th Quarter	15.74	11.40

As of March 1, 2002, there were approximately 10,900 holders of record of Common Stock.

The Company has not paid cash dividends on its Common Stock to date. The Company currently intends to retain all future earnings to finance continued expansion and operation of its business and subsidiaries. Any decision as to the payment of dividends to the stockholders of the Company will be made by the Company's Board of Directors and will depend upon the Company's future results of operations, financial condition, capital requirements and such other factors as the Board of Directors considers appropriate.

In addition, dividends paid by the domestic insurance subsidiaries of the Company to the Company out of earned surplus in any year without prior approval of state regulatory authorities are limited by the laws and regulations of the state of domicile. Prior approval by state regulatory authorities is required for the payment of dividends by domestic insurance companies, which exceed the limits set by the laws of the state of domicile. See Note L of the Notes to Consolidated Financial Statements included herein.

During the year ended December 31, 2001, the Company issued 109,250 shares of unregistered common stock pursuant to its 2001 Restricted Stock Plan.

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for each of the five years in the period ended December 31, 2001 have been derived from the audited Consolidated Financial Statements of the Company. The following data should be read in conjunction with the Consolidated Financial Statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein. The following has been restated to reflect the Company's Special Risk Division as a discontinued operation. See Note B of the Notes to the Consolidated Financial Statements.

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND OPERATING RATIOS)				
INCOME STATEMENT DATA:					
Revenues from continuing operations	$1,106,583	$1,019,655	$ 954,179	$ 989,932	$ 849,45
Income from continuing operations before income taxes	66,223	67,138	54,797	42,368	104,29
Income from continuing operations	48,358	32,018	35,814	28,660	70,88
Income (loss) from discontinued operations	(5,466)	(26,285)	(181,696)	30,109	15,61
Net income (loss)	42,892	5,733	(145,882)	58,769	86,50
Earnings per share from					

continuing operations:					
Basic earnings per Common share......................	$ 1.04	$ 0.68	$ 0.77	$ 0.62	$ 1.5
Diluted earnings per Common share......................	$ 1.01	$ 0.67	$ 0.75	$ 0.61	$ 1.5
Earnings (loss) per share from discontinued operations:					
Basic earnings (loss) per Common share...............	$ (0.12)	$ (0.56)	$ (3.92)	$ 0.65	$ 0.3
Diluted earnings (loss) per Common share...............	$ (0.11)	$ (0.55)	$ (3.80)	$ 0.65	$ 0.3
Earnings (loss) per share:					
Basic earnings (loss) per Common share...............	$ 0.92	$ 0.12	$ (3.15)	$ 1.27	$ 1.9
Diluted earnings (loss) per Common share...............	$ 0.90	$ 0.12	$ (3.05)	$ 1.26	$ 1.9
OPERATING RATIOS:					
Health Ratios:					
Loss ratio(1).................	62%	63%	68%	75%	63
Expense ratio(2)..............	34%	33%	30%	30%	30
Combined health ratio.........	96%	96%	98%	105%	93
BALANCE SHEET DATA:					
Total investments and cash(3)...	$1,269,640	$1,148,568	$1,111,334	$1,142,694	$1,062,91
Total assets....................	3,285,884	2,989,848	3,504,182	2,227,383	1,453,50
Total policy liabilities........	891,361	824,632	841,398	883,425	843,19
Total debt......................	25,303	89,991	152,220	50,328	50,27
Student loan credit facilities....................	1,506,202	1,334,847	1,698,765	669,026	-
Stockholders' equity............	534,572	447,105	407,434	594,791	536,29
Stockholders' equity per share(4)......................	$ 10.81	$ 9.74	$ 9.44	$ 12.52	$ 11.2

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(1) The health loss ratio represents benefits, claims and settlement expenses related to health insurance policies stated as a percentage of earned health premiums.

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(2) The health expense ratio represents underwriting, acquisition and insurance expenses related to health insurance policies stated as a percentage of earned health premiums. Expenses relating to providing administrative services are not included.

(3) Does not include restricted cash. See Note A of Notes to Consolidated Financial Statements.

(4) Excludes the unrealized gains (losses) on available for sale securities, which are reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company's historical results of operations and of its liquidity and capital resources should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements of the Company and related notes thereto included herein.

The Company's operating segments include the following: (i) Insurance, which includes the businesses of the Self-Employed Agency Division; the Student Insurance Division; the Life Insurance Division (formerly the Company's OKC Division); the Senior Market Division; and the National Motor Club Division (until sold on July 27, 2000); (ii) Financial Services, which includes the businesses of Academic Management Services Corp., the Company's investment in Healthaxis, Inc., the business of the Company's Third Party Administration ("TPA") unit and (iii) Other Key Factors, which includes investment income not allocated to the other segments, interest expense on corporate debt, general expenses relating to corporate operations, realized gains or losses on sale of investments, the AMLI operations, variable stock compensation and goodwill amortization. Net investment income is allocated to the Insurance segment based on policy liabilities. The interest rate for the allocation is based on a high credit quality investment portfolio with a duration consistent with the duration of the segment's policy liabilities.

On March 17, 2000 the Board of Directors of UICI determined, after a thorough assessment of the unit's prospects, that the Company would exit from its United CreditServ sub-prime credit card business. In September 2000, the Company completed the sale of substantially all of United CreditServ's non-cash assets, and in January 2001 the Company completed the voluntary liquidation of UCNB, in accordance with the terms of a plan of voluntary liquidation approved by the OCC. Accordingly, the United CreditServ unit has been reflected as a discontinued operation for financial reporting purposes for all periods presented.

The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes for all periods presented. The Company's Special Risk Division has specialized in certain niche health-related products (including "stop loss", marine crew accident, organ transplant and international travel accident products), various insurance intermediary services and certain managed care services.

RESULTS OF OPERATIONS -- OVERVIEW

Set forth below is a discussion of certain general matters affecting the Company's historical and future results of operations.

INVESTMENT IN HEALTHAXIS, INC.

At December 31, 2001, UICI held beneficially approximately 47% of the issued and outstanding shares of Healthaxis, Inc. ("HAI") (formerly Provident American Corporation) (Nasdaq: HAXS). See Note E of Notes to Consolidated Financial Statements.

HAI is an emerging technology service firm that provides web-based connectivity and applications solutions for health benefit distribution and administration. These solutions, which consist primarily of software products and related services, are designed to assist health insurance payers, third party administrators, intermediaries and employers in providing enhanced services to members, employees and providers through the application of HAI's flexible technology to legacy systems, either on a fully integrated or on an application service provider (ASP) basis.

The Company has accounted for its investment in HAI utilizing the equity method and has recognized its ratable share of HAI income and loss (computed prior to amortization of goodwill recorded in connection with the January 7, 2000 merger of Insurdata Incorporated (formerly a wholly-owned subsidiary of UICI) with and into HealthAxis.com, the sole operating subsidiary of HAI). The Company's carrying value of its investment in HAI was $8.3 million and $18.4 million at December 31, 2001 and 2000, respectively. See Note E of Notes to Consolidated Financial Statements.

The Company also constitutes a significant customer of HAI. Pursuant to the terms of an information technology services agreement, amended and restated as of January 3, 2000 (the "Services Agreement"), HAI provides information systems and software development services (including administration of the Company's computer data center) to the Company and its insurance company affiliates at HAI's cost of such services (including direct costs of HAI personnel dedicated to providing services to the Company plus a portion of HAI's overhead costs) plus a 10% mark-up. Pursuant to the terms of the Services Agreement, UICI paid to HAI $20.4 million, $21.0 million and $23.3 million in 2001, 2000 and 1999, respectively. In addition, HAI has provided to the Company and its affiliates certain other information technology services, including claims imaging and software-related services, for which UICI paid to HAI $10.1 million, $6.4 million and $3.7 million in 2001, 2000 and 1999, respectively. The aggregate amounts paid by UICI to HAI in 2001, 2000 and 1999, respectively, represented 70%, 63% and 58% of HAI's total revenues of $43.8 million, $43.7 million and $46.2 million in such years, respectively. See Notes E and M of Notes to Consolidated Financial Statements.

ACADEMIC MANAGEMENT SERVICES CORP.

For the year ended December 31, 2001, UICI's Academic Management Services Corp. subsidiary ("AMS") reported operating income of $5.4 million compared to an operating loss of $(24.6) million for the year ended December 31, 2000. During 2001, AMS benefited from increased student loan spread income (i.e., the difference between interest earned on outstanding student loans and interest expense associated with indebtedness incurred to fund such loans) attributable to a favorable interest rate environment, increased gains on sales of loans and continued efforts to reduce operating expenses.

The amount of student loan spread income that AMS may earn in any period depends in large part upon the level of prevailing market interest rates relative to the prescribed minimum rate that can be earned on AMS' student loan portfolio. During 2001, AMS benefited significantly from a favorable prescribed minimum rate earned on its student loan portfolio. The benchmark for yields on federally guaranteed student loans is reset annually in accordance with Department of Education regulations effective July 1 for the succeeding twelve-month period. While yields on student loans are indexed to the 91-day Treasury bill rate, the benchmark establishes a floor, below which a lender's yield will not fall during the succeeding twelve-month period. On July 1, 2001, the floor rates on FFELP loans for the period July 1, 2001 through June 30, 2002 reset 220 basis points lower than the floor rates for the period July 1, 2000 through June 30, 2001. Nevertheless, due to rapidly declining market interest rates, shortly before September 30, 2001 the rate that AMS earned on its student loan portfolio again fell to the statutorily prescribed minimum rate, and the continued decline in prevailing market interest rates over the three months ended December 31, 2001 had the effect of continuing to reduce AMS' overall borrowing costs. As a result, AMS' spread income in the fourth quarter of 2001 in the amount of $7.5 million exceeded spread income of $3.2 million earned in the third quarter of 2001 and spread income of $696,000 earned in the fourth quarter of 2000. Spread income for the year 2001 was $20.4 million, compared to spread income of $6.7 million for the prior year.

On July 1, 2002, the floor rates on FFELP loans for the period July 1, 2002 through June 30, 2003 will again be reset. Based on current prevailing market interest rates, the Company currently expects a decrease in the prescribed floor rates on its student loan portfolio, and, as a result, AMS believes that spread income in the second half of 2002 will be less than the level of spread income experienced in the second half of 2001 and the level of spread income currently expected in the first six months of 2002.

AMS tuition payment program business has historically generated its highest levels of fee income (and operating profits) in the second and third quarters of the calendar year and an operating loss in the fourth quarter of the calendar year. Due to the inherent uncertainty surrounding spread income and the seasonality of its tuition installment business, in any given financial period AMS may continue to rely on gains from timely sales of student loans to remain profitable for such period. AMS sold $474.0 million and $765.0 million principal amount of student loans during the year ended December 31, 2001 and 2000, respectively, from which AMS generated gains on sales in the amount of $11.3 million and $7.8 million, respectively.

On August 3, 2001, the Company completed the acquisition from AMS' former chief executive officer of the remaining 25% common stock interest in AMS it did not already own for a purchase price of $750,000. For additional consideration, the former chief executive officer and certain former employees of AMS agreed, for a three-year period ending in August 2004, not to engage in any business competitive with AMS' tuition installment or student loan servicing businesses. These former executives and their affiliates further agreed to pay to AMS fees in prescribed amounts in connection with the origination and consolidation of certain student loans over a three-year period ending in August 2004.

CLOSEDOWN OF WORKERS' COMPENSATION BUSINESS

In May 2001, the Company determined to exit its workers compensation business, in connection with which the Company incurred a charge in the three months ended June 30, 2001 of $8.7 million associated with a strengthening of reserves. In the fourth quarter of 2001, the Company also recorded a charge of $1.3 million, which represented the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administrator.

ACCOUNTING FOR GOODWILL

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, which prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Statement 142 also requires that goodwill included in the carrying value of equity method investments no longer be amortized. The Company will apply Statement 142 beginning in the first quarter 2002. Application of the nonamortization provisions of Statement 142 is expected to result in an increase in net income of approximately $4.5 million ($0.09 per share) in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect, if any, of these tests will be on the results of operations and financial position of the Company.

At December 31, 2001, the Company had recorded on its consolidated balance sheet net goodwill in the amount of $86.0 million, substantially all of which was recorded in connection with the acquisition by the Company of AMS and businesses forming a part of AMS.

ACCOUNTING FOR HEALTH POLICY ACQUISITION COSTS

The Company incurs various costs in connection with the origination and initial issuance of its health insurance policies, including underwriting and policy issuance costs, costs associated with lead generation activities and distribution costs (i.e., sales commissions paid to agents). For financial reporting purposes, underwriting and policy issuance costs with respect to health policies issued through the Company's Self Employed Agency and Student Insurance Divisions are expensed as incurred. Costs associated with generating sales leads with respect to the health business issued through the Self Employed Agency Division are capitalized and amortized over a two-year period. The Company defers the portion of commissions paid to agents and premium taxes with respect to the portion of health premium collected but not yet earned, and the Company amortizes the deferred expense over the period as and when the premium is earned. See Note A of Notes to Consolidated Financial Statements.

With respect to health policies sold through the Company's Self Employed Agency Division, commissions paid to agents with respect to first year policies are higher than commissions paid to agents with respect to policies in renewal years. Accordingly, during periods of increasing first year premium revenue (such as

occurred during 2001), the Self Employed Agency Division's overall operating profit margin will be negatively impacted by the higher commission expense associated with first year premium revenue.

ACCOUNTING FOR AGENT STOCK ACCUMULATION PLANS

The Company sponsors a series of stock accumulation plans (the "Agent Plans") established for the benefit of the independent insurance agents and independent sales representatives associated with UGA -- Association Field Services, New United Agency, Cornerstone Marketing of America, Guaranty Senior Assurance, SeniorsFirst and CFLD Association Field Services. Under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," the Company has established a liability for future unvested benefits under the Agent Plans and adjusts the liability based on the market value of the Company's Common Stock. The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based commission charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based commission charges may result in material non-cash fluctuations in the Company's results of operations. See Note O of Notes to Consolidated Financial Statements.

RECONFIRMATION OF 1998 SHARE REPURCHASE PROGRAM

At its regular meeting held on February 28, 2001, the Board of Directors of the Company reconfirmed the Company's 1998 share repurchase program, in which it initially authorized the repurchase of up to 4,500,000 shares of its common stock from time to time in open market or private transactions. The Company had previously purchased through early 1999 198,000 shares of common stock pursuant to the program. Following reconfirmation of the program, through February 18, 2002, the Company had purchased an additional 980,400 shares pursuant to the program (with the most recent purchase made on December 13, 2001) at an aggregate cost of $8.8 million, or $9.03 per weighted average share. The timing and extent of additional repurchases, if any, will depend on market conditions and the Company's evaluation of its financial resources at the time of purchase.

DISCONTINUED OPERATIONS

The Company's reported results in 2001 and 2000 reflected a loss from discontinued operations (consisting of the Company's former sub-prime credit card unit and the Special Risk Division) in the amount of $(5.5) million ($(0.11) per diluted share) and $(26.3) million ($(0.55) per diluted share), respectively.

United CreditServ, Inc. Through the Company's United CreditServ, Inc. subsidiary ("United CreditServ"), prior to 2000 the Company marketed credit support services to individuals with no, or troubled, credit experience and assisted such individuals in obtaining a nationally recognized credit card. The activities of United CreditServ were conducted primarily through its wholly-owned subsidiaries United Credit National Bank ("UCNB") (a special purpose national bank, based in Sioux Falls, South Dakota, chartered solely to hold credit card receivables); Specialized Card Services, Inc. (provider of account management and collections services for all of the Company's credit card programs); United Membership Marketing Group, Inc. ("UMMG") (a Lakewood, Colorado-based provider of marketing, administrative and support services for the Company's credit card programs); and UICI Receivables Funding Corporation ("RFC"), a single-purpose, bankruptcy-remote entity through which certain credit card receivables were securitized.

In March 2000, the Board of Directors of UICI, after a thorough assessment of the unit's prospects, determined that UICI would exit from its United CreditServ sub-prime credit card business and, as a result, the United CreditServ unit is reflected as a discontinued operation for financial reporting purposes for all periods presented effective December 31, 1999. At December 31, 1999, the Company established a liability for loss on the disposal of the discontinued operation in the amount of $130.0 million (pre-tax), which liability was included in net liabilities of discontinued operations. The liability for loss on disposal established by the Company at December 31, 1999 represented the Company's then-current estimate of all additional losses (including asset write-downs, the estimated loss on the sale of the business and/or the assets and continuing operating losses through the date of sale) that it then believed it would incur as part of any sale of the United CreditServ unit.

Reflecting the terms of the Company's then-pending sale of its United CreditServ business, during the quarter ended June 30, 2000 the Company recorded an additional pre-tax loss, and correspondingly increased the liability for loss on the disposal of the discontinued operation, in the amount of $36.0 million ($23.4 million net of tax). Accordingly, for the full year 2000, the Company reported a pre-tax loss from discontinued operations in the amount of $36.0 million ($23.4 million net of tax).

During the year ended December 31, 2000, the discontinued operation incurred a loss from operations in the amount of approximately $131.9 million, which loss was charged to the liability for loss on disposal. At December 31, 2000, the remaining assets of the discontinued operations in the amount of $54.3 million (consisting of cash and short-term investments in the amount of $27.8

million and other assets in the amount of $26.5 million) were reclassified to cash and other assets, respectively, on the Company's consolidated balance sheet, and the remaining liabilities of the discontinued operations in the amount of $53.0 million (consisting of notes payable in the amount of $4.3 million and other liabilities in the amount of $48.7 million) were reclassified to notes payable and other liabilities, respectively, on the Company's consolidated balance sheet.

On September 29, 2000, the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivables portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price at closing of approximately $124.0 million. The Company retained United CreditServ's Texas collections facility, and UICI continues to hold United CreditServ's building and real estate in Sioux Falls, South Dakota. The Company has leased the Sioux Falls facilities to the purchaser of the credit card assets pursuant to a long-term lease. UICI also retained the right to collect approximately $250.0 million face amount of previously written off credit card receivables. In connection with the sale, UICI or certain of its subsidiaries retained substantially all liabilities and contingencies associated with its credit card business, including liability for payment of all certificates of deposit issued by UCNB, loans payable and liabilities associated with pending litigation and other claims.

On January 29, 2001, UCNB completed its voluntary liquidation in accordance with the terms of a plan of voluntary liquidation approved by the OCC by surrendering to the OCC its national bank charter and distributing to a wholly-owned subsidiary of UICI the residual assets of UCNB, including available cash and cash equivalents in the amount of approximately $26.0 million.

The 1999 and 2000 operating losses at United CreditServ had a material adverse effect upon the liquidity and cash flows of the Company. Since the Company first announced losses at its United CreditServ unit in December 1999, UICI through United CreditServ contributed to UCNB as capital an aggregate of $176.6 million in cash. UICI at the holding company level funded these cash contributions and other cash needs with the proceeds of sale of investment securities; a borrowing from a third party in the amount of $24.0 million funded in July 2000; approved sales of assets from the holding company to the Company's regulated insurance company subsidiaries completed in June and July 2000 generating cash proceeds in the aggregate amount of approximately $26.2 million; dividends in the amount of $19.0 million paid during the six months ended June 30, 2000 from The Chesapeake Life Insurance Company ("CLICO") (one of its regulated insurance company subsidiaries); the sale to The MEGA Life and Health Insurance Company of CLICO for $19.0 million in July 2000; cash proceeds in the amount of $21.8 million from the disposition of its National Motor Club unit completed in July 2000; and cash on hand.

In addition to the cash sales price received at the September 2000 closing of the sale of the non-cash assets associated with its United CreditServ credit card unit, the sale transaction contemplated an incentive cash payment contingent upon the post-closing performance of the ACE credit card portfolio over a one-year period. The Company's results from discontinued operations in 2001 and the fourth quarter of 2001 included net income after tax in the amount of $3.7 million, associated with the receipt of a $5.7 million cash payment, representing the final settlement of the deferred contingent portion of the purchase price.

Special Risk Division. The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. The Company's Special Risk Division has specialized in certain niche health-related products (including "stop loss", marine crew accident, organ transplant and international travel accident products), various insurance

intermediary services and certain managed care services. For the year ended December 31, 2001, the Special Risk Division reported a net loss of $(9.2) million, compared to a net loss of $(2.9) million for the year ended December 31, 2000, which losses were reflected in results from discontinued operations.

Effective January 1, 2000, the Company entered into reinsurance and specific retrocession agreements with an unaffiliated insurance carrier with respect to a block of special risk business formerly managed by Excess, Inc. ("Excess"), a managing general underwriter of special health-related coverages acquired by the Company in 1997. These agreements effectively permitted the Company to transfer to the unaffiliated insurance carrier the insurance revenue and risk portion of that business as the business renews over the life of the policies.

MODIFICATION OF UICI EXECUTIVE STOCK PURCHASE PROGRAM -- SPECIAL 2000 COMPENSATION EXPENSE

In January 2001, the Board of Directors of the Company adopted certain modifications to the UICI Executive Stock Purchase Program (the "ESPP"), which was initially adopted and implemented in December 1998 to afford directors and key UICI executives the opportunity to purchase UICI common stock. See Note O of Notes to Consolidated Financial Statements. In connection with the January 2001 modifications to the ESPP, for financial reporting purposes UICI recorded in the quarter ended December 31, 2000 compensation expense in the amount of $4.8 million pre-tax, or $4.1 million net of tax.

RESULTS OF OPERATIONS

2001 COMPARED TO 2000

General

UICI reported revenues and income from continuing operations in 2001 of $1.1 billion and $48.4 million ($1.01 per diluted share), respectively, compared to 2000 revenues and income from continuing operations of $1.0 billion and $32.0 million ($0.67 per diluted share), respectively.

The Company reported net income in 2001 in the amount of $42.9 million ($0.90 per diluted share), compared to net income of $5.7 million ($0.12 per diluted share) in 2000, including losses from discontinued operations in 2001 and 2000 in the amount of $(5.5) million ($(0.11) per diluted share) and $(26.3) million ($(0.55) per diluted share), respectively.

Continuing Operations

Revenues. UICI's revenues increased to $1,106.6 million in 2001 from $1,019.7 million in 2000, an increase of $86.9 million, or 9%, primarily as a result of a 22% increase in health premiums, from $651.4 million in 2000 to $797.4 million in 2001. The increase in health premium revenue in 2001 was offset by a 14% decrease in interest and investment income and a 9% decrease in other fee income. Revenues in 2000 also were favorably impacted by a realized gain of $26.3 million from a sale of HealthAxis.com shares completed in the first quarter of 2000.

Health premiums. Health premium revenue increased to $797.4 million in 2001 from $651.4 million in 2000, an increase of $146 million, or 22%. The increase in health premium revenue in 2001 was primarily attributable to a 67%

increase in the Self-Employed Agency Division's submitted annualized premium volume for the year (which the Company defines in any period as the aggregate annualized premium amount associated with health insurance applications submitted by the Company's agents in such period for underwriting by the Company) ($578.5 million in 2001 compared to $346.7 million in 2000) and an increase in policy retention rates.

Life premiums and other considerations. Life premiums and other considerations decreased to $34.7 million in 2001 from $36.8 million in 2000, a decrease of $2.1 million, or 6%. This decrease resulted primarily from reduced premiums and other considerations from closed blocks of life and annuity business. The Company last acquired a closed block of life insurance and annuities in 1994. Although the Company believes that it can continue to exploit acquisition opportunities and continues to analyze potential transactions, the Company believes that the current climate for acquisitions of blocks of life insurance and annuities

has become very competitive, making it more difficult to successfully complete acquisitions that meet the Company's acquisition rate of return criteria.

Investment income. Investment income decreased to $83.8 million in 2001 from $89.8 million in 2000, a decrease of $6.0 million, or 7%. The decrease was due to reduced yield on the Company's investment portfolio and a reduction in average outstanding short-term investments, due primarily to the use of cash to reduce outstanding borrowings during the year.

Other interest income. Other interest income (consisting primarily of interest earned on the Company's student loan portfolio) decreased to $88.4 million in 2001 from $111.4 million in 2000, a decrease of $23.0 million, or 21%. The decrease was due to declining market interest rates, resulting in a reduced yield on funds held in connection with AMS' tuition payment programs and a reduced yield on AMS' student loan portfolio.

Other fee income. Other fee income decreased to $94.0 million in 2001 from $103.7 million in 2000, a decrease of $9.7 million or 9%. Other fee income consists primarily of tuition installment program fees, loan-servicing fees and gains on loan sales at AMS (in the aggregate $38.6 million and $35.6 million in 2001 and 2000, respectively), third party administration fees ($24.3 million and $22.2 million in 2001 and 2000, respectively), and various Self-Employed Division marketing-related fees ($28.0 million and $23.3 million in 2001 and 2000, respectively). The decrease in other fee income is associated with the sale in July 2000 of National Motor Club ("NMC"), which generated $19.4 million in other fee income (primarily membership fees) for the seven-month period ended July 2000. Included in other fee income is the third party administration revenue of UICI Administrators of $20.1 million in 2001 and $18.5 million in 2000. The Company completed the sale of UICI Administrators on January 17, 2002.

Other income. Other income (consisting primarily of commission and fee income from the Company's AMLI Realty Co. subsidiary) increased to $3.1 million in 2001 from $2.2 million in 2000, an increase of $900,000. The increase in other income is due to commissions received by the Company's AMLI Realty Co. subsidiary in connection with property sales.

Gain on sale of HealthAxis.com stock. On March 14, 2000, the Company sold in a private sale to an institutional purchaser 2,000,000 shares of HealthAxis.com common stock. In connection with the sale of such shares, the Company recognized a pre-tax gain in the amount of $26.3 million.

Gains (losses) on sale of investments. The Company recognized gains on sale of investments of $5.2 million in 2001 compared to losses of $(1.9) million in 2000. Included in 2001 gains is a $5.3 million gain related to the Company's investment in AMLI Commercial Properties Trust ("ACPT") and $3.4 million in gains from the Company's investment portfolio, which were offset by an impairment charge for certain investments in the amount of $3.5 million. During 2001, ACPT, an equity method investee, in which the Company held a 20% equity interest, sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sale, the Company recognized a gain in the amount of $5.3 million.

The amount of realized gains or losses on the sale of investments is affected by changes in interest rates, market trends and the timing of sales. Losses are more likely during periods of increasing long-term interest rates. In addition, due to decreasing long-term interest rates in 2001, the net unrealized investment gain on securities classified as "available for sale", reported in accumulated other comprehensive income as a separate component of stockholders' equity and net of applicable income taxes, increased to $30.3 million at December 31, 2001, from a net unrealized investment loss of $(10.1) million at December 31, 2000. The Company changed its method for accounting for its investment in AMLI Residential effective June 30, 2001, from the equity method to the investment method. The Company holds a 10% interest in AMLI Residential. The effect of the accounting change was to increase the carrying value of AMLI Residential on the consolidated balance sheet of the Company at June 30, 2001 from $22.6 million to $62.8 million; the accounting change had no effect on the Company's results of operations for the year ended December 31, 2001. As a result of the accounting change, the Company marks-to-market its investment in AMLI Residential and accordingly, changes in the Company's carrying value of its investment in AMLI Residential are recorded as unrealized gains (or losses) with corresponding changes to the Company's stockholders' equity

(net of tax). At December 31,2001 and 2000, the Company's carrying value of its investment in AMLI Residential was $64.3 million and $23.1 million, respectively.

Benefits, claims, and settlement expenses. Benefits, claims and settlement expenses increased to $531.0 million in 2001 from $439.7 million in 2000, an increase of $91.3 million, or 21%. The increase in benefits, claims and settlement expenses was primarily due to the increase in premium revenue from the SEA and Student Divisions and the strengthening of reserves associated with the Company's workers compensation business. In May 2001 the Company discontinued its workers compensation business, in connection with which the Company incurred a charge of $8.7 million associated with a strengthening of reserves.

Underwriting, acquisition and insurance expenses. Underwriting, acquisition and insurance expenses increased to $293.8 million in 2001 from $239.4 million in 2000, an increase of $54.4 million, or 23%. The increase was primarily due to increased commission expense attributable to the growth in first year premium revenue in the SEA Division (with respect to which the Company records a higher commission expense than with respect to premium revenue in policy renewal years). In the fourth quarter of 2001, the Company also recorded a charge of $1.3 million, which represented the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administration.

Other expenses. Other expenses (consisting primarily of AMS operating expenses and other non-insurance related expenses) decreased to $101.1 million in 2001 from $117.1 million in 2000, a decrease of $16.0 million or 14%. The decrease was due to the sale of National Motor Club ("NMC") in July 2000. NMC incurred $17.2 million in other expenses for the seven month period ended July 2000.

Depreciation. Depreciation expense increased to $15.9 million in 2001 from $14.0 million in 2000, an increase of $1.9 million or 14%. The increase was primarily due to additional depreciation associated with the capitalized costs of technology initiatives and upgrades.

Interest expense. Interest expense on corporate borrowings decreased to $5.0 million in 2001 from $13.6 million in 2000, a decrease of $8.6 million. The decrease was due primarily to the decreased level of borrowings outstanding during 2001 compared to 2000. Interest expense on student loan obligations decreased to $69.4 million in 2001 from $101.6 million in 2000, a decrease of $32.2 million or 32%, primarily resulting from a decline in prevailing market interest rates.

Operating Income. Income from continuing operations before federal income taxes ("operating income") decreased to $66.2 million in 2001 from $67.1 million in 2000. Operating income (loss) for each of the Company's segments and divisions was as follows:

	YEAR ENDED DECEMBER 31,	
	2001	2000
Income (loss) from continuing operations before income taxes:		
Insurance:		
Self Employed Agency	$ 74,849	$ 70,905
Student Insurance	4,022	(1,877)
Life Insurance Division	7,363	13,132
Senior Market	(2,112)	--
National Motor Club	--	2,471
Total Insurance	84,122	84,631
Financial Services:		
Academic Management Services	5,413	(24,640)
UICI Administrators	(2,099)	(1,668)
Gain on sale of HealthAxis.com shares	--	26,300

	YEAR ENDED DECEMBER 31,	
	2001	2000
Equity interest in Healthaxis, Inc. operating loss	(10,597)	(15,623)
Total Financial Services	(7,283)	(15,631)
Other Key Factors:		
Investment income on equity, realized gains and losses, general corporate expenses and other (including		

interest on non-student loan indebtedness)............	2,940	9,631
Variable stock compensation..............................	(7,293)	(5,300)
Goodwill amortization....................................	(6,263)	(6,193)
Total Other Key Factors..........................	(10,616)	(1,862)
Total income from continuing operations before income taxes..................................	$ 66,223	$ 67,138

Self-Employed Agency Division. Operating income at UICI's Self Employed Agency ("SEA") Division increased by 6% to $74.8 million for the year ended December 31, 2001, from $70.9 million in 2000.

The Company measures the volume of business activity at SEA by means of "submitted annualized premium volume," which in any period is the aggregate annualized premium amount associated with health insurance applications submitted by the Company's agents in such period for underwriting by the Company. SEA in 2001 experienced a 67% increase in submitted annualized premium volume over 2000 levels ($578.5 million in 2001 compared to $346.7 million in 2000). The Company recognizes premium revenue in a period as and when it is earned. Earned premium revenue at SEA increased from $521.1 million in 2000 to $650.0 million in 2001, a 25% increase. Operating income as a percentage of earned premium revenue decreased to 11.5% in 2001 from 13.6% in 2000. This decrease in operating margin was attributable primarily to a significant increase in first year earned premium revenue (with respect to which the Company records a higher commission expense than with respect to earned premium revenue in policy renewal years) and a nominal increase in loss ratio (59.9% for 2001 compared to 59.5% for 2000).

Student Insurance Division. For the year ended December 31, 2001, the Student Insurance Division reported operating income of $4.0 million compared to an operating loss of $(1.9) million in 2000. The increase in operating income for the year ended December 31, 2001 was attributable to a 13% increase in earned premium revenue, continued improvement in loss ratios, and improvement in administrative efficiencies.

Life Insurance Division. For the year ended December 31, 2001, the Company's Life Insurance Division reported operating income of $7.4 million compared to operating income of $13.1 million in 2000. The decrease in operating income for the year ended December 31, 2001 was primarily attributable to the discontinuation in May 2001 of the Company's workers compensation business (in connection with which the Company incurred a charge of $8.7 million in the second quarter associated with a strengthening of reserves) increased administration costs associated with investment in new life products and a charge of $1.3 million in the fourth quarter representing the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administrator. These charges in 2001 were partially offset by a $5.2 million increase in the second quarter in the carrying value of student loans generated by the Company's College Fund Life Insurance Division, a unit of the Life Insurance Division.

Senior Market Division. The Company has established a Senior Market Division to segregate the reporting of expenses incurred in connection with the development of insurance products for the senior market (including long term care and Medicare supplement products), and the development of distribution channels for the products. For the year ended December 31, 2001, the Company realized nominal revenues associated with this Division, and the Company has expensed developmental costs as incurred.

National Motor Club. On July 27, 2000, the Company completed the sale of its 97% interest in NMC Holdings, Inc. (the parent of National Motor Club of America, Inc.) to an investor group consisting of

members of the family of Ronald L. Jensen (including Mr. Jensen). See Notes C and M of Notes to the Consolidated Financial Statements.

Academic Management Services Corp. For the year ended December 31, 2001, UICI's Academic Management Services Corp. subsidiary ("AMS") reported operating income of $5.4 million compared to an operating loss of $(24.6) million for the comparable period in 2000. Set forth below is a summary comparative statement of operations for AMS for the year ended December 31, 2001 and 2000:

	YEAR ENDED DECEMBER 31,	
	2001	2000
Interest income -- student loans	$ 88,398	$110,651
Gain on sale of student loans	11,300	7,757
Other investment income	6,663	8,039
Fee income -- tuition payment programs	14,085	11,898
Fee income -- loan servicing and other	13,211	15,905
Total revenue	133,657	154,250
Interest expense -- student loans	69,205	104,043
Provision for loan loss	292	1,810
Interest expense -- other indebtedness	2,152	4,365
Depreciation	3,934	4,563
Amortization of goodwill	3,986	3,989
Other operating expenses	53,518	66,423
Less: operating costs deferred	(34)	(2,238)
	133,053	182,955
Income (loss) from operations (including amortization of goodwill and other expenses in Other Key Factors)	604	(28,705)
Amortization of goodwill and other expenses in Other Key Factors	4,809	4,065
Income (loss) from operations	$ 5,413	$(24,640)

The significant improvement in operating results for the year ended December 31, 2001 resulted primarily from increased student loan spread income (i.e., the difference between interest earned on outstanding student loans and interest expense associated with indebtedness incurred to fund such loans) attributable to a favorable interest rate environment, increased gains on sales of loans and continued efforts to reduce operating expenses

Declining market interest rates throughout 2001 resulted in an overall decrease in revenue (due to decreased interest income on AMS' student loan portfolio and decreased investment income from funds on deposit in AMS' tuition installment plan trust account) during 2001 compared to revenue in 2000. However, declining market interest rates throughout 2001 benefited AMS by significantly lowering its costs of borrowing, resulting in improved spreads on

AMS' student loan portfolio. Spread income for the year 2001 was $20.4 million compared to $6.7 million for the prior year.

During 2001, AMS benefited significantly from a favorable prescribed minimum rate earned on its student loan portfolio. The benchmark for yields on federally guaranteed student loans is reset annually in accordance with Department of Education regulations effective July 1 for the succeeding twelve-month period. While yields on student loans are indexed to the 91-day Treasury bill rate, the benchmark establishes a floor, below which a lender's yield will not fall during the succeeding twelve-month period. On July 1, 2001, the floor rates on FFELP loans for the period July 1, 2001 through June 30, 2002 reset 220 basis points lower than the floor rates for the period July 1, 2000 through June 30, 2001. Nevertheless, due to rapidly declining market interest rates, shortly before September 30, 2001 the rate that AMS earned on its student loan portfolio again fell to the statutorily prescribed minimum rate, and the continued decline in prevailing market

interest rates over the three months ended December 31, 2001 had the effect of continuing to reduce AMS' overall borrowing costs. As a result, AMS' spread income in the fourth quarter of 2001 in the amount of $7.5 million exceeded spread income of $3.2 million earned in the third quarter of 2001 and spread income of $696,000 earned in the fourth quarter of 2000.

AMS sold $474.0 million and $765.0 million principal amount of student loans during the year ended December 31, 2001 and 2000, respectively, from which AMS generated gains on net sales in the amount of $11.3 million and $7.8 million, respectively. While AMS sold a lesser principal amount of loans in 2001 than in 2000, the higher net gain in 2001 resulted from lower deferred loan origination costs associated with sold loans in 2001 compared to 2000.

Income from AMS' tuition payment programs in the year ended December 31, 2001 was $14.1 million, compared to income in the year ended December 31, 2000 of $11.9 million. For the year ended December 31, 2001, an increase in fees attributable to additional tuition payment accounts and the imposition of late fees on delinquent accounts were offset by a decline in investment income from tuition payment program funds held in trust, as a result of lower prevailing market interest rates. Investment income on funds held in connection with tuition payment programs declined to $6.6 million in 2001 from $8.0 million in 2000 (despite a 16% increase in the average trust fund balance). AMS tuition payment program business has historically generated its highest levels of fee income (and operating profits) in the second and third quarters of the calendar year and an operating loss in the fourth quarter of the calendar year.

AMS also reduced operating expenses by $15.1 million in the year ended December 31, 2001, over operating expenses in 2000. This reduction in operating expenses was primarily attributable to the closing in September 2000 of AMS' San Diego facility, reduced interest expense associated with non-student loan indebtedness, and reduced administrative expenses. For the year ended December 31, 2001, interest expense on non-student loan indebtedness was $2.2 million, compared to interest expense on non-student loans of $4.4 million in the year ended December 31, 2000. On June 28, 2001, AMS paid off its remaining senior indebtedness in the amount of $14.3 million, the proceeds of which were utilized in 1999 to fund a portion of the purchase price for AMS' tuition installment business.

Due to the inherent uncertainty surrounding spread income and the seasonality of its tuition installment business, in any given financial period AMS may continue to rely on gains from timely sales of student loans to remain profitable for such period.

Third Party Administration Division. The Company has classified the operations of UICI Administrators, Inc., Insurdata Marketing Services, LLC, and Barron Risk Management Services, Inc. as its Third Party Administration ("TPA") Division. For year ended December 31, 2001, the TPA Division incurred an operating loss of $(2.1) million compared to an operating loss of $(1.7) million in the comparable 2000 period. On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of its TPA Division. In the three months ended December 31, 2001, the Company recognized an impairment charge of $2.3 million to its long-lived assets, of which $700,000 represented a write-down of fixed assets (which was included in depreciation in 2001) and $1.6 million represented a write-down of goodwill (which was reflected in goodwill amortization in 2001). As a result of the charge in the fourth quarter of 2001, the Company recognized no gain or loss on the sale of UICI Administrators, Inc.

Investment in Healthaxis, Inc. (formerly HealthAxis.com, Inc.) At December 31, 2001, the Company held approximately 47% of the issued and outstanding shares of Healthaxis, Inc. (HAXS: Nasdaq) ("HAI"). The Company accounts for its investment in HAI utilizing the equity method and, accordingly, recognizes its ratable share of HAI income and loss (computed prior to amortization of goodwill recorded by HealthAxis.com in connection with the January 7, 2000 merger of Insurdata Incorporated (formerly a wholly-owned subsidiary of UICI) with and into HealthAxis.com). See Note E of Notes to Consolidated Financial Statements.

During the year ended December 31, 2001, the Company's share of HAI's operating losses (computed prior to amortization of merger related goodwill) was $(10.6) million, compared to its share of operating

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losses of $(15.6) million in 2000. At December 31, 2001, the Company's carrying value of its investment in HAI was $8.3 million.

Other Key Factors. The Other Key Factors category includes investment income not allocated to the other segments, interest expense on corporate debt, general expenses relating to corporate operations, realized gains or losses on sale of investments, minority interest expense, the AMLI operations, variable stock compensation and amortization of goodwill. Operating losses for the year ended December 31, 2001 attributable to this category were $(10.6) million compared to $(1.9) million for the comparable period in 2000. The increase in operating losses was primarily attributable to a $7.5 million increase in corporate technology expenses, a $2.0 million increase in variable stock compensation, a $3.7 million increase in minority interest expense attributable to AMS' return to profitability in 2001, and a $3.5 million impairment charge from the Company's investment portfolio. These increases were partially offset by $3.4 million in realized gains from the Company's investment portfolio (excluding the impairment charge) and a $5.3 million gain recognized in 2001 on the sale of the Company's interest in AMLI Commercial Properties Trust. The amount of realized gains or losses on the sale of investments is a function of interest rates, market trends and the timing of sales.

During 2001, AMLI Commercial Properties Trust, an equity method investee in which the Company held a 20% equity interest, sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sales, the Company recognized a gain in the amount of $5.3 million.

The Company changed its method for accounting for its investment in AMLI Residential Properties Trust (a publicly-traded (NYSE: AML) real estate investment trust) ("AMLI Residential") from the equity method to the investment method effective June 30, 2001 due to its decreased ownership interest to 10.3%.

The effect of the accounting change was to increase the carrying value of AMLI Residential on the consolidated balance sheet of the Company at June 30, 2001 from $22.6 million to $62.8 million. As a result of the accounting change, the Company no longer records its share of AMLI Residential's gains and losses but, rather, marks-to-market its investment in AMLI Residential. Accordingly, increases (or decreases) in the Company's carrying value of its investment in AMLI Residential are now recorded as unrealized gains (or losses) with corresponding increases (or decreases) to the Company's stockholders' equity (net of tax). At December 31, 2001 and 2000, the Company's carrying value of its investment in AMLI Residential was $64.3 million and $23.1 million, respectively. The $23.1 million carrying value of the investment at December 3, 2000 is reflected on the Company's consolidated balance sheet under "Investment in other equity investees."

2000 COMPARED TO 1999

General

UICI reported 2000 revenues and income from continuing operations of $1.020 billion and $32.0 million ($0.67 per share fully diluted), respectively, compared to 1999 revenues and income from continuing operations of $954.2 million and $35.8 million ($0.75 per share fully diluted), respectively. The Company generated total 2000 net income in the amount of $5.7 million ($0.12 per share fully diluted), compared to a net loss of $(145.9) million ($(3.05) per share fully diluted) in 1999, reflecting a loss in 2000 and 1999 from discontinued operations in the amount of $(26.3) million ($(0.55) per share fully diluted) and $(181.7) million ($(3.80) per share fully diluted), respectively.

UICI's 2000 results include a pre-tax operating loss at the Company's Academic Management Services Corp. student loan unit of $(24.6) million, the Company's equity in losses of HealthAxis, Inc. of $(15.6) million, and a $26.3 million pre-tax gain from the sale of investment securities.

The Company's Self -- Employed Agency ("SEA") Division, which provides health insurance to the self-employed market, reported operating income of $70.9 million in 2000, a 41% increase over operating income of $50.4 million in 1999. The significant increase in operating income of the SEA division was primarily attributable to improved loss ratios on the Company's managed care products, continued success in directing a larger portion of new sales to more traditional, higher margin, indemnity products, and increased

productivity of the Company's dedicated agent field force. The Company's Insurance Segment as a whole reported operating income in 2000 of $84.6 million, a 19% increase over operating income of $71.1 million generated in 1999.

As discussed further below, AMS' 2000 operating results reflected, in part, a reduction in operating income as a result of reduced yields on AMS' student loan portfolio, which resulted from the acquisition of higher cost student loans in 1998 and 1999. AMS also incurred significant non-recurring expenses associated with, among other things, the management transition effected in January 2000, the relocation of AMS' headquarters, the write-off of facilities development costs and previously capitalized costs incurred in connection with AMS' Internet strategy, and the previously announced closure of the San Diego loan origination center.

Reflecting the terms of the Company's then-pending sale of its United CreditServ business, during the quarter ended June 30, 2000 the Company recorded an additional pre-tax loss, and correspondingly increased the liability for loss on the disposal of the discontinued operation, in the amount of $36.0 million ($23.4 million net of tax). Accordingly, for the full year 2000, the Company reported a loss from discontinued operations in the amount of $40.3 million pre-tax ($26.3 million net of tax). During the year ended December 31, 2000, the credit card discontinued operation incurred a loss from operations in the amount of approximately $131.9 million, which loss was charged to the liability for loss on disposal.

In December 2001, the Company designated its Special Risk Division as a discontinued operation for financial reporting purposes for all years presented.

Continuing Operations

Revenues. UICI's revenues increased to $1,019.7 million in 2000 from $954.2 million in 1999, an increase of $65.5 million, or 7%, primarily as a result of an increase in other interest income and the gain on sale of the HealthAxis.com shares in the amount of $26.3 million, offset by a $9.6 million reduction in other fee income.

Health premiums. Health premiums increased to $651.4 million in 2000 from $649.5 million in 1999, an increase of $1.9 million.

Life premiums and other considerations. Life premiums and other considerations decreased to $36.8 million in 2000 from $40.3 million in 1999, a decrease of $3.5 million, or 9%. This decrease resulted from reduced premiums and other considerations from closed blocks of life and annuity business.

Investment income. Investment income increased to $89.8 million in 2000 from $82.9 million in 1999, an increase of $6.9 million, or 8%. The increase was due to increased earnings from the Company's investment in AMLI Residential Properties Trust, together with an increase in investment income from restricted cash held at AMS for a full year in 2000. AMS Investment Group, Inc. was acquired in July 1999.

Other interest income. Other interest income increased to $111.4 million in 2000 from $65.1 million in 1999, an increase of $46.3 million. The increase was due to the additional interest income earned on student loans at the Company's AMS operations in 2000.

Other fee income. Other fee income decreased to $103.7 million in 2000 from $113.3 million in 1999, a decrease of $9.6 million. The decrease was due to the sale of National Motor Club ("NMC") in July 2000. NMC generated $19.4 million and $24.6 million in other fee income (primarily membership fees) for the seven month period ended July 2000 and for the full year in 1999, respectively.

Other income. Other income decreased to $2.2 million in 2000 from $3.5 million in 1999, a decrease of $1.3 million. The decrease in other income is due to a decrease in fee and commission income from the Company's AMLI Realty Co. subsidiary.

Gain on sale of HealthAxis.com stock. On March 14, 2000, the Company sold in a private sale to an institutional purchaser 2,000,000 shares of HealthAxis.com common stock. In connection with the sale of such shares, the Company recognized a pre-tax gain in the amount of $26.3 million.

Loss on sale of investments. The Company recognized losses on sale of investments of $(1.9) million in 2000 compared to $(367,000) in 1999. The amount of realized gains or losses on the sale of investments is a function of interest rates, market trends and the timing of sales. Losses are more likely during periods of increasing long-term interest rates. In addition, due to decreasing long-term interest rates in 2000, the net unrealized investment loss on securities classified as "available for sale", reported in accumulated other comprehensive income as a separate component of stockholders' equity and net of applicable income taxes, was $10.1 million at December 31, 2000, compared to $30.4 million at December 31, 1999.

Benefits, claims, and settlement expenses. Benefits, claims and settlement expenses decreased to $439.7 million in 2000 from $470.3 million in 1999, a decrease of $30.6 million, or 7%. The decrease was primarily due to the improvement in loss ratios on the Company's managed care products in the SEA Division.

Underwriting, acquisition and insurance expenses. Underwriting, acquisition and insurance expenses increased to $239.4 million in 2000 from $225.1 million in 1999, an increase of $14.3 million or 6%. The increase was primarily due to increased commission expense from directing sale of new business to traditional indemnity products which generally incur higher first year commission rates than managed care products and increased technology costs.

Other expenses. Other expenses increased to $117.1 million in 2000 from $114.3 million in 1999, an increase of $2.8 million. The increase was primarily due to increased administrative expenses incurred at the Company's AMS division due to management transition relocation of AMS' headquarters and the write-off of various development and capitalized costs.

Depreciation. Depreciation expense increased to $14.0 million in 2000 from $13.6 million in 1999, an increase of $400,000.

Interest expense. Interest expense on corporate borrowings increased to $13.6 million in 2000 from $7.4 million in 1999, an increase of $6.2 million. The increase was due primarily to the increased level of borrowings outstanding during 2000. Interest expense on student loan obligations increased to $101.6 million in 2000 from $57.5 million in 1999, an increase of $44.1 million. The increase was due primarily to AMS' increased student loan origination volume.

Operating Income. Income from continuing operations before federal income taxes ("operating income") increased to $67.1 million in 2000 from $54.8 million in 1999. Operating income (loss) for each of the Company's segments and divisions was as follows:

	YEAR ENDED DECEMBER 31,	
	2000	1999
Income (loss) from continuing operations before income taxes:		
Insurance:		
Self Employed Agency	$ 70,905	$ 50,415
Student Insurance	(1,877)	49
Life Insurance Division	13,132	17,405
National Motor Club	2,471	3,200
Total Insurance	84,631	71,069
Financial Services:		
Academic Management Services	(24,640)	(19,938)
UICI Administrators	(1,668)	2,322

Gain on sale of HealthAxis.com shares	26,300	--
HealthAxis.com operating loss	(15,623)	--
Total Financial Services	(15,631)	(17,616)

	YEAR ENDED DECEMBER 31,	
	2000	1999
Other Key Factors:		
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest on non-student loan indebtedness)	9,631	7,623
Variable stock compensation	(5,300)	--
Goodwill amortization	(6,193)	(6,279)
Total Other Key Factors	(1,862)	1,344
Total income from continuing operations before income taxes	$ 67,138	$ 54,797

Self Employed Agency Division ("SEA"). The SEA Division reported operating income of $70.9 million in 2000 compared to $50.4 million in 1999. Revenue for the SEA Division decreased to $566.4 million for the year ended in 2000 from $566.8 million in 1999, a decrease of $400,000. The increase in operating income was primarily attributable to improved loss ratios on the Company's managed care products, continued success in directing a larger portion of new sales to more traditional, higher margin, indemnity products, and increased productivity of the Company's dedicated agent field force. The decrease in revenues was attributable to the decrease in premiums from the coinsurance business, which was offset by the continued success in new business sales from the Company's Cornerstone and UGA dedicated agency field forces.

Student Insurance Division. The Student Insurance Division incurred an operating loss of $(1.9) million in 2000 compared to operating income of $49,000 in 1999. The loss in 2000 reflected increased expenses associated with new system implementations and lower margins resulting from increased loss ratios on policies sold in the 1998-1999 policy year. Revenue for the Student Insurance Division increased to $111.5 million in 2000 from $108.0 million in 1999, an increase of $3.5 million, or 3%.

Life Insurance Division. Operating income for the Life Insurance Division decreased to $13.1 million in 2000 from $17.4 million in 1999, a decrease of 25%. The decrease in operating income was attributable to several factors. The Life Insurance Division's life insurance claim benefits increased over claim benefits in the corresponding period of the prior year. The Company believes that the higher level of claims in the life business was due to normal variations in the business for the closed life blocks. An additional loan reserve was established for the student loans made by the College Fund Life unit on its life insurance product. Credit disability insurance claim reserves were increased based on claims experience, and a reserve for bad debts on premium receivables was established. Operating income for the workers compensation line of business decreased as a result of lower premium rates, which has been occurring in this product line in Oklahoma for the past two years. Revenue for the Life Insurance Division decreased to $92.4 million in 2000 from $94.1 million in 1999, a decrease of $1.7 million, or 2%.

National Motor Club. On July 27, 2000, the Company completed the sale of its 97% interest in NMC Holdings, Inc. (the parent of National Motor Club of America, Inc.) to an investor group consisting of members of the family of Ronald L. Jensen (including Mr. Jensen). See Note M of Notes to the Consolidated Financial Statements.

Operating income for the National Motor Club decreased to $2.5 million in 2000 compared to $3.2 million in 1999. Revenues for National Motor Club decreased to $21.7 million in 2000 from $27.8 million in 1999. The decrease in operating income and revenues reflects the sale of National Motor Club in July 2000.

Third Party Administration Division. The Company has classified the operations of UICI Administrators, Inc. (a company engaged in the business of providing third party benefits administration, including eligibility and billing reconciliation), Insurdata Marketing Services, LLC (a subsidiary of the Company engaged in the business of marketing third party benefits administration services) and Barron Risk Management Services, Inc. as its Third Party Administration ("TPA") business division. The TPA Division incurred an operating loss of $(1.7) million in 2000 compared to operating income of $2.3 million in 1999. Revenues for the TPA Division decreased to $18.5 million in 2000 from $46.2 million in 1999.

The decrease in operating income and revenues at the Company's TPA division was primarily attributable to the timing of the contribution of substantially all of the operations of Insurdata Incorporated (other than the operations of Insurdata Marketing Services, LLC) to HealthAxis.com in connection with the Insurdata-HealthAxis.com merger, which was completed in January 2000. The results of operations of Insurdata Incorporated had previously been included in the results of operations of the TPA division. Excluding the 1999 results of operations of Insurdata Incorporated transferred to HealthAxis.com, for 2000 and 1999, revenues for the UICI Administrators division were $18.5 million and $4.8 million, respectively, and operating income (loss) for the division was $(1.7) million and $414,000, respectively.

Investment in Healthaxis, Inc. The Company accounts for its investment in Healthaxis, Inc. utilizing the equity method and, accordingly, recognizes its ratable share of Healthaxis, Inc. income and loss (computed prior to amortization of goodwill recorded by Healthaxis, Inc. in connection with the Insurdata Merger). See Note E of Notes to Consolidated Financial Statements. The Company's equity in the loss of HealthAxis.com for 2000 was $15.6 million. Healthaxis, Inc. continues to incur operating losses attributable to significant marketing, development and other start-up expenses. HealthAxis.com also incurred losses in 2000 in connection with the sale of its retail web site and related assets. The Company's share of such losses ($(2.5) million) is included in the Company's equity in losses for 2000.

On March 14, 2000, the Company sold in a private sale to an institutional purchaser 2,000,000 shares of HealthAxis.com common stock. In connection with the sale of such shares, the Company recognized a pre-tax gain in the amount of $26.3 million.

Other Key Factors. Other key factors include investment income not allocated to the other segments, interest expense from corporate borrowings, general expenses relating to corporate operations, realized gains or losses on sale of investments, the AMLI operations, variable stock compensation and amortization of goodwill. Other key factors reported an operating loss of $(1.9) million in 2000 compared to operating income of $1.3 million in 1999, a $3.2 million decrease. The decrease is primarily due to decreased fees and commissions at the Company's AMLI subsidiary and an increase in realized losses in 2000.

Goodwill amortization decreased to $6.2 million in 2000 from $6.3 million in 1999, a decrease of $100,000. This decrease in goodwill amortization was attributable to the sale of NMC in July 2000, the assets of which included approximately $36.1 million in goodwill. This decrease was offset by the increase of goodwill amortization from the AMS acquisition in July 1999, resulting in a full year of amortization in 2000, compared to five months of amortization in 1999.

Academic Management Services Corp. ("AMS"). AMS incurred an operating loss of $(24.6) million in 2000, compared to an operating loss of $(19.9) million in 1999 (in each case exclusive of goodwill amortization and other expenses at the parent-company level). Revenue for AMS increased to $154.3 million

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in 2000 from $104.6 million in 1999. Set forth below is a summary comparative statement of operations for AMS:

	YEAR ENDED DECEMBER 31,	
	2000	1999
Interest income -- student loans	$110,651	$ 65,001
Gain on sale of student loans	7,757	7,404
Other investment income	8,039	3,986
Fee income -- tuition payment programs	11,898	7,404
Fee income -- loan servicing and other	15,905	15,258
Insurance income	--	5,539
Total revenue	154,250	104,592
Interest expense -- student loans	104,043	63,497
Provision for loan loss	1,810	950
Interest expense -- other indebtedness	4,365	2,398
Depreciation	4,563	3,378
Amortization of goodwill	3,989	2,618
Other operating expenses	66,423	61,284
Less: operating costs deferred	(2,238)	(6,977)
	182,955	127,148
Loss from operations (including amortization of goodwill and other expenses in Other Key Factors)	(28,705)	(22,556)
Amortization of goodwill and other expenses in Other Key Factors	4,065	2,618
Loss from operations	$(24,640)	$(19,938)

The increases in 2000 in interest income and interest expense associated with student loans, as well as the increase in the provision for loan loss, resulted primarily from higher average carrying amount of student loans held during the year compared to 1999. In 2000, AMS originated approximately $776.1 million principal amount of new loans, purchased approximately $2.5 million principal amount of student loans in the secondary market, and sold approximately $779.8 million principal amount of loans. In 1999, AMS originated approximately $671.2 million principal amount of new loans, purchased approximately $401.0 million principal amount of student loans in the secondary market, and sold approximately $391.0 million principal amount of loans. Including principal payments and capitalization and amortization of deferred loan origination costs, student loans decreased approximately $166.0 million in 2000, as compared to an increase of approximately $628.0 million during 1999. During 2000, an increase in prevailing interest rates had a negative effect on the cost of financing AMS' student loan portfolio.

Included in the interest rate spread on student loans are PLUS loans on which the interest rate yield is set annually beginning July 1 by regulation at a fixed rate. At March 31, June 30, September 30 and December 31, 2000, AMS held PLUS loans in the aggregate principal amount of $371.0 million, $270.0 million, $253.0 million and $273.0 million, respectively. The prescribed rate earned on PLUS loans was 7.72% from January 1 to June 30, 2000 and was reset to 8.99% beginning July 1, 2000. If the interest rate yield exceeds the maximum allowable rate chargeable to the borrower, AMS, as the holder of PLUS loans, would be eligible for government subsidized, special allowance payments for the year. The fixed interest rate yield in 2000 was below the maximum rate. For the twelve months beginning July 1, 2000, the fixed rate will be below the maximum rate and AMS will not be entitled to special allowance payments on its PLUS loans. AMS finances the cost of such loans at floating interest rates that are reset monthly and quarterly through its structured finance facilities.

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Gain on sale of student loans included gross gains of $22.5 million in 2000 and $16.0 million in 1999. Deferred loan origination costs associated with sold loans were charged to gain on sale in the amount of $14.7 million and $8.6 million in 2000 and 1999, respectively. While more principal amount of loans was sold in 2000 than in 1999, resulting in a higher gross gain, the lower net gain results from higher deferred loan origination costs associated with sold loans in 2000 compared to 1999. In addition, the sale of loans in the second and third quarters of 2000 resulted in lower interest income in the second half of the year, as the sold loans no longer generated interest income. The reduction in interest earned in the second half of 2000 because of loan sales was offset by gains on sale of $3.8 million in the first six months of 2000 and $3.1 million in the second six months.

Other investment income increased to $8.0 million in 2000 from $4.0 million in 1999. Fee income from tuition payment programs increased to $11.9 million in 2000 from $7.4 million in 1999. Increases in both of these categories resulted primarily from the acquisition of the Academic Management Services Inc. tuition payment program business, effective July 27, 1999. Results from this business were included for a full year in 2000, compared to a period of five months in 1999. Income for the tuition payment program business is seasonal. In 2000, income from tuition payment program fees earned plus investment income on tuition payment program trust funds was $3.6 million in the first quarter, $5.5 million in the second quarter, $7.8 million in the third quarter and $3.8 million in the fourth quarter.

Insurance income of $5.5 million in 1999 relates to AMS' student insurance business. In May 1999, the assets and liabilities associated with AMS' student insurance business were transferred to UICI's Student Insurance Division.

Interest expense on other indebtedness increased to $4.4 million in 2000 from $2.4 million in 1999, reflecting primarily additional borrowings in the amount of $30.0 million incurred to acquire Academic Management Services Inc. on July 27, 1999. Interest expense on this acquisition indebtedness was $2.8 million in 2000.

The increases in depreciation expense and amortization of goodwill also resulted primarily from the inclusion of AMS' tuition payment program business and its acquisition cost for a full year in 2000, compared to five months in 1999. Amortization of goodwill associated with the acquisition of this business was $2.4 million in 2000 compared to $1.0 million in 1999.

Other operating expenses increased to $66.4 million in 2000 from $61.3 million in 1999. Included in 2000 operating expenses were approximately $5.7 million associated with the management transition effected in January 2000, the relocation of AMS' headquarters from South Yarmouth, Massachusetts to Swansea, Massachusetts, the write-off of facilities development costs and the write-off of previously capitalized costs incurred in connection with AMS' Internet strategy and other business initiatives undertaken by prior management. AMS also incurred $1.2 million in consulting expenses in connection with analysis of operating strategies. Included in AMS' operating expenses for 2000 is $900,000 in expenses associated with the transfer in the fourth quarter of AMS' non-campus based association marketing business to UICI's Student Insurance Division. In addition, operating costs associated with the tuition payment program business are included for a full year in 2000 compared to five months in 1999.

AMS markets loans to parents of dependent students ("PLUS loans") through direct mail and telemarketing programs directly to prospective student and parent borrowers. Until September 2000, these marketing activities were conducted primarily through the Company's San Diego, California marketing unit. On September 17, 2000, AMS announced that the California facility would be closed and the PLUS loan marketing activities would be consolidated into AMS' Swansea, Massachusetts headquarters. Management believes that these changes will result in a more cost-effective marketing effort. In 2000, AMS recorded a charge to income in the amount of $1.5 million, representing expenses incurred in connection with the exit from its San Diego unit. These costs included termination benefits for substantially all of the unit's 90 employees and the cost of certain contractual obligations of the unit.

Certain costs of originating loans are capitalized in accordance with Statement of Financial Accounting Standards No. 91, Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial

Direct Costs of Leases. Capitalized costs for PLUS loans incurred by the San Diego unit were $2.2 million in 2000 as compared to $7.0 million in 1999. The decrease in capitalized costs resulted from a decrease in total expenses incurred ($7.5 million in 2000 compared to $17.0 million in 1999) and a decrease in PLUS loan production ($50.0 million in 2000 compared to $192.0 million in 1999).

QUARTERLY RESULTS

The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. The Company's Special Risk Division has specialized in certain niche health-related products (including "stop loss", marine crew accident, organ transplant and international travel accident products), various insurance intermediary services and certain managed care services. For the year ended December 31, 2001, the Special Risk Division reported a net loss of $(9.2) million, compared to a net loss of $(2.9) million for the year ended December 31, 2000, which losses were reflected in results from discontinued operations.

The following table presents the information for each of the Company's fiscal quarters in 2001 and 2000 as restated to reflect classification of the Special Risk Division as a discontinued operation. This information is unaudited and has been prepared on the same basis as the audited Consolidated Financial Statements of the Company included herein and, in management's opinion, reflects all adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	QUARTER ENDED			
	DECEMBER 31, 2001	SEPTEMBER 30, 2001	JUNE 30, 2001	MARCH 31, 2001
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
Revenues from continuing operations	$299,209	$272,217	$278,718	$256,439
Income from continuing operations before federal income taxes	10,398	20,023	17,077	18,725
Income (loss) from continuing operations	9,380	13,713	12,943	12,322
Income (loss) from discontinued operations	(3,082)	(1,838)	(327)	(219)
Net income (loss)	6,298	11,875	12,616	12,103
Basic earnings (loss) for common stockholders per common share:				
Income (loss) from continuing operations	0.20	0.30	0.28	0.26
Income (loss) from discontinued operations	(0.06)	(0.05)	(0.01)	--
Net income (loss)	0.14	0.25	0.27	0.26
Diluted earnings (loss) for common stockholders per common share:				
Income (loss) from continuing operations	0.19	0.29	0.27	0.26
Income (loss) from discontinued operations	(0.06)	(0.04)	--	(0.01)
Net income (loss)	$ 0.13	$ 0.25	$ 0.27	$ 0.25

	QUARTER ENDED			
	DECEMBER 31, 2000	SEPTEMBER 30, 2000	JUNE 30, 2000	MARCH 31, 2000
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
Revenues from continuing operations	$252,772	$239,936	$253,631	$273,316
Income from continuing				

operations before federal income taxes...............	3,411	15,211	10,418	38,098
Income (loss) from continuing operations.................	(2,074)	8,157	6,277	19,658
Income (loss) from discontinued operations....	(4,020)	859	(23,257)	133
Net income (loss)............	(6,094)	9,016	(16,980)	19,791
Basic earnings (loss) for common stockholders per common share:				
Income (loss) from continuing operations.................	(0.05)	0.17	0.14	0.42
Income (loss) from discontinued operations....	(0.09)	0.02	(0.50)	0.01
Net income (loss)............	(0.14)	0.19	(0.36)	0.43
Diluted earnings (loss) for common stockholders per common share:				
Income (loss) from continuing operations.................	(0.05)	0.17	0.13	0.42
Income (loss) from discontinued operations....	(0.08)	0.02	(0.49)	--
Net income (loss)............	$ (0.13)	$ 0.19	$ (0.36)	$ 0.42

Computation of earnings (loss) per share for each quarter is made independently of earnings (loss) per share for the year.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

The Company's primary sources of cash have been premium revenues from policies issued, investment income, fees and other income, and borrowings to fund student loans. The primary uses of cash have been payments for benefits, claims and commissions under those policies, operating expenses and the funding of student loans. During 2001, the Company generated net cash from operations on a consolidated basis in the amount of $189.8 million. Net cash used in operations totaled $21.3 million in 2000 and $58.3 million in 1999.

UICI is a holding company, the principal assets of which are its investments in its separate operating subsidiaries, including its regulated insurance subsidiaries. The holding company's ability to fund its cash requirements is largely dependent upon its ability to access cash, by means of dividends or other means, from its subsidiaries. The laws governing the Company's insurance subsidiaries restrict dividends paid by the Company's domestic insurance subsidiaries in any year. Inability to access cash from its subsidiaries could have a material adverse effect upon the Company's liquidity and capital resources.

During the year ended December 31, 2000, the losses at United CreditServ had a material adverse effect upon the liquidity and cash flow of the Company. During 2000, UICI contributed to United CreditServ an aggregate of $171.3 million in cash. In addition, on June 28, 2000, the Company funded an $8.0 million principal prepayment owing on its bank credit facility, on June 1, 2000 the Company made a mandatory principal payment on its senior notes outstanding in the amount of $4.0 million, and effective July 27, 2000 the Company prepaid $6.0 million owing to an affiliated lender. See Note M to Notes to Consolidated Financial Statements. UICI at the holding company level funded these cash contributions and other cash needs with the proceeds of the sale of investment securities, a borrowing from a third party in the amount of $24.0 million funded in July 2000, approved sales of assets from the holding company to the Company's regulated insurance company subsidiaries completed in June and July 2000 generating cash proceeds in the aggregate amount of approximately $26.2 million, dividends in the amount of $19.0 million paid during the six months ended June 30, 2000 from CLICO, the sale to The MEGA Life and Health Insurance Company of CLICO for $19.0 million in July 2000, cash proceeds in the amount of $21.8 million from the disposition of its National Motor Club unit completed in July 2000, and cash on hand.

The Company completed its exit from the credit card business during 2001. On January 29, 2001, the Company completed the voluntary liquidation of UCNB, in accordance with the terms of a plan of voluntary liquidation approved by the OCC. See Note B to Notes to Consolidated Financial Statements. UCNB surrendered to the OCC its national bank charter and distributed to a wholly-owned subsidiary of UICI the residual assets of UCNB in the amount of approximately $26.0 million, substantially all of which consisted of cash and cash equivalents. The Company utilized a substantial portion of the proceeds of the liquidation to prepay indebtedness owing to a limited liability company controlled by the Company's Chairman in the amount of $21.1 million and other indebtedness in the amount of $5.0 million.

At December 31, 2001 and 2000, UICI at the holding company level held cash and cash equivalents in the amount of $57.3 million and $16.4 million, respectively. UICI currently estimates that, through December 31, 2002, the holding company will have operating cash requirements in the amount of approximately $78.4 million. The Company currently anticipates that these cash requirements at the holding company level will be funded by cash on hand, cash received from interest income, dividends from domestic and offshore insurance companies and tax sharing reimbursements from subsidiaries (which will be partially offset by holding company operating expenses). There can be no assurance that the cash requirements at the holding company level will not exceed current estimates, or that the holding company will be able to raise sufficient cash to fund cash requirements on a timely basis.

Prior approval by insurance regulatory authorities is required for the payment of dividends by a domestic insurance company that exceed certain statutory limitations based on surplus and net income.

The Company reduced its consolidated short and long-term indebtedness (exclusive of indebtedness secured by student loans) from $90.0 million (which included $19.0 million of indebtedness owing to a related party) at December 31, 2000 to $25.3 million (of which none was owed to a related party) at December 31,

2001, of which $19.4 million constituted indebtedness of the holding company at December 31, 2001 (including $11.9 million outstanding principal amount of the Company's 8.75% Senior Notes). See Note I of Notes to Consolidated Financial Statements. In addition, during 2001 the Company utilized approximately $8.8 million to repurchase 980,400 shares of its common stock pursuant to its previously announced stock repurchase program, which was reconfirmed by the Board of Directors of the Company at its February 28, 2001 meeting.

In June 2001, AMS paid off its remaining senior indebtedness in the amount of $14.3 million, the proceeds of which were utilized in 1999 to fund a portion of the purchase price for AMS' tuition installment business. At December 31, 2000, this senior indebtedness was outstanding in the amount of $21.3 million and was reflected as corporate debt (i.e., non-student loan indebtedness) on the Company's consolidated balance sheet.

On January 25, 2002, the Company entered into a three-year bank credit facility with Bank of America, NA and LaSalle Bank National Association. Under the facility, the Company may borrow from time to time up to $30.0 million on a revolving, unsecured basis. The Company intends to utilize the proceeds of the facility for general working capital purposes. As of March 8, 2002, the Company had no borrowings outstanding under the facility.

STUDENT LOAN CREDIT FACILITIES AND RESTRICTED CASH

The Company's consolidated balance sheet reflects significant assets (consisting primarily of federally guaranteed and alternative (i.e., non-federally guaranteed) student loans and restricted cash) and liabilities (consisting primarily of indebtedness under secured student loan credit facilities) attributable to the student loan financing and origination activities of the Company's AMS subsidiary and College Fund Life Insurance Division.

At December 31, 2001 and 2000, the Company, through AMS and the College Fund Life Insurance Division, had outstanding an aggregate of $1,506.2 million and $1,334.8 million of indebtedness under secured student loan credit facilities, of which $1,242.8 million and $1,221.5 million were issued by bankruptcy-remote special purpose entities (each, an "SPE" or "Special Purpose Entity") which are included in the Company's Consolidated Financial Statements. At December 31, 2001 and 2000, indebtedness outstanding under secured student loan credit facilities (including indebtedness issued by Special Purpose Entities) was secured by federally guaranteed and alternative (i.e., non-federally guaranteed) student loans in the carrying amount of $1,276.1 million and $1,125.5 million, respectively, and by a pledge of cash, cash equivalents and other qualified investments in the amount of $129.4 million and $86.2 million, respectively. All such indebtedness issued under secured student loan credit facilities is reflected as student loan indebtedness on the Company's consolidated balance sheet; all such student loans pledged to secure such facilities are reflected as student loan assets on the Company's consolidated balance sheet; and all such cash, cash equivalents and qualified investments specifically pledged under the student loan credit facilities are reflected as restricted cash on the Company's consolidated balance sheet.

A trust created for the benefit of participants in AMS' tuition installment program held invested assets in the amount of approximately $141.7 million and $112.6 million at amortized cost (which approximated market) at December 31, 2001 and 2000, respectively, all of which assets are classified as restricted cash on the Company's consolidated balance sheet. AMS is entitled to the interest earned on the funds held in the trust as well as tuition budgeting program fees deposited into the trust. The funds are invested in U.S. Treasury securities, government agency securities, high-grade commercial paper, and money market funds of insured depository institutions at December 31, 2001.

Set forth below is a summary pro forma December 31, 2001 balance sheet of UICI, excluding certain assets (student loans and restricted cash) and certain liabilities (student loan credit facilities) associated with the Company's AMS and College Life Fund Division ("CFLD") operations:

	AT DECEMBER 31, 2001			
	UICI CONSOLIDATED	AMS AND CFLD	OTHER AMS FINANCING	AMS TUITION INSTALLMENT

	AS REPORTED	SPE FINANCINGS	FACILITIES(1)	PROGRAM(2)
			(IN THOUSANDS)	
Assets:				
Investments................	$1,218,718	$ --	$ --	$ --
Student loans..............	1,278,427	1,053,788	222,262	--
Cash.......................	50,922	--	36,059	--
Restricted cash............	295,182	127,272	--	141,663
Investment income due and accrued..................	60,879	35,840	11,314	--
Other assets...............	381,756	5,181	116	1,428
Total assets...........	$3,285,884	$1,222,081	$269,751	$143,091
Liabilities:				
Policy liabilities.........	$ 891,361	$ --	$ --	$ --
Other liabilities..........	187,552	3,172	668	--
Collections payable........	140,894	--	--	140,894
Notes payable..............	25,303	--	--	--
Student loan credit facilities...............	1,506,202	1,242,840	263,362	--
Total liabilities........	2,751,312	1,246,012	264,030	140,894
Stockholders' equity (deficit)...........	534,572	(23,931)(4)	5,721	2,197
Total liabilities and stockholders' equity............	$3,285,884	$1,222,081	$269,751	$143,091

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(1) Obligations under AMS' master repurchase agreement and credit facility are partially (approximately $13.0 million at December 31, 2001) guaranteed by the Company. See discussion below.

(2) A trust created for the benefit of participants in AMS' tuition installment program held invested assets in the amount of approximately $141.7 million and $112.6 million at amortized cost (which approximated market) at December 31, 2001 and 2000, respectively, all of which assets are classified as restricted cash on the Company's consolidated balance sheet. See Note A to Notes to Consolidated Financial Statements.

(3) Represents cash and cash equivalents required to be held by CFLD to support certain loan servicing obligations under CFLD's SPE financing.

(4) Includes negative equity in the AMS SPE financings, which is attributable to permitted financing of student loans through AMS SPE financings in excess of par value.

A more detailed summary of such student loan credit facilities is set forth below:

ACADEMIC MANAGEMENT SERVICES CORP.

In March 1998, AMS entered into a master repurchase agreement and credit facility with a financial institution, the obligations under which are partially (approximately $13.0 million at December 31, 2001) guaranteed by the Company.

The proceeds of the facility are used from time to time to initially fund AMS' student loan originations. The repurchase agreement provides for the purchase of student loans by the financial

institution, and the financial institution may put the student loans back to AMS on the last day of each month. AMS, in turn, has the right to require the financial institution to repurchase the student loans on such date, with the interest rate on the credit facility reset on such date. The credit facility provides for up to $150.0 million of financing and may be increased subject to monthly confirmations. The credit facility bears interest at a variable annual rate of LIBOR plus 75 basis points (2.68% at December 31, 2001) and had an outstanding balance of $263.4 million and $113.4 million at December 31, 2001 and 2000, respectively. The credit facility had an initial term of one year, has been extended until March 2002 and is secured by student loans originated under the Federal Family Education Loan Program, which are guaranteed by the federal government or alternative loans guaranteed by private guarantors. The financial institution may value the loans at any time and require AMS to repay any amount by which the market value of the loans is less than the amount required by the credit facility. At February 28, 2002, AMS had borrowings outstanding under the credit facility in the amount of $40.7 million.

After initial funding, AMS typically refinances groups of loans on a more structured basis by transferring loans to Special Purpose Entities, which in turn issue debt securities secured by the student loans. During 1999, AMS established approximately $1.3 billion of such structured funding facilities in three separate transactions:

- On June 11, 1999, AMS sold, in a private placement transaction, $319.5 million principal amount of Auction Rate Student Loan-Backed Notes issued by a Special Purpose Entity at an initial interest rate of 5.038%. The notes were sold in two tranches and mature in November 2022. The notes are insured by MBIA Insurance Corporation ("MBIA") and received a "AAA" credit rating from Standard & Poor's and Fitch IBCA and an "Aaa" rating from Moody's Investor Services. At December 31, 2001, the notes bore interest at rates of 2.42% for Class A-1 and 2.44% for Class A-2, and the outstanding balance of the notes at December 31, 2001 and 2000 was $254.6 million and $290.0 million, respectively.

- Effective August 6, 1999, AMS completed a closing and funding of $515.0 million of its $650.0 million single seller asset-backed commercial paper conduit, pursuant to which commercial paper may be issued by a Special Purpose Entity from time to time with maturities from one to 270 days. Approximately $619.6 million of commercial paper bearing interest rate of 1.90% to 2.45% was issued and outstanding under the facility at December 31, 2001. Liquidity support is provided by a separate banking facility. Under the terms of the program, in the event the support facility is activated, borrowings under the bank facility would be repaid using collections of underlying student loans, would bear interest at LIBOR plus seventy-five (75) basis points and would mature in August 2034. The commercial paper received ratings of A1/P1/F1 from Standard & Poor's, Moody's, and Fitch, respectively, and is insured by MBIA.

- On October 7, 1999, AMS completed a $344.0 million financing of three classes of notes issued by a Special Purpose Entity. The $229.0 million Class A-1 notes were structured as three-month LIBOR floating rate notes and were priced with a spread of 42 basis points with the interest rate to be reset quarterly. The Class A-1 notes with an outstanding balance of $153.7 million at December 31, 2001 have an expected average life of 3.5 years with legal final maturity in April 2009. The $57.5 million Class

A-2 and $57.5 million Class A-3 notes were structured as auction rate notes with an initial interest rate of 6.38%. The interest rate on these notes is reset quarterly. Legal final maturity of the A-2 and A-3 notes is July 2027. At December 31, 2001, the outstanding balance of the notes was $115.0 million, bearing interest rates of 2.55% and 2.42%, respectively. All three classes of notes received AAA/Aaa/AAA ratings from Standard & Poor's, Moody's and Fitch IBCA, respectively, and are insured by MBIA.

In each case the obligations under such structured finance facilities constitute obligations solely of the Special Purpose Entity that issued the obligations and not of the Company, AMS or any other subsidiary of the Company. However, for financial reporting and accounting purposes the AMS structured finance facilities have been classified as financings. Accordingly, in connection with the financings neither the Company nor AMS recorded gain on sale of the student loan assets transferred to the Special Purpose Entity and, on a

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consolidated basis, the Company continues to carry on its consolidated balance sheet the student loans ($975.3 million at December 31, 2001) and cash and cash equivalents held by the Special Purpose Entities ($113.4 million at December 31, 2001 classified as restricted cash) and the associated indebtedness ($1,142.8 million in the aggregate at December 31, 2001, which is included on the Company's consolidated balance sheet as student loan credit facilities) arising from the transactions.

In January 2002 the Company completed the sale of $335.0 million principal amount of auction rate notes issued by a Special Purpose Entity. The notes are secured by a pledge of federally guaranteed student loans, are rated Aaa by Moody's Investor Service and AAA by Fitch, Inc. and are insured by MBIA. As part of the transaction, the Special Purpose Entity acquired a $269.1 million portfolio of student loans from AMS and a loan acquisition fund in the amount of $50.0 million (consisting of cash and cash equivalents) was established to acquire in the future additional student loans originated by AMS. The notes represent obligations solely of the Special Purpose Entity and not of the Company, AMS or any other subsidiary of the Company. However, for financial reporting and accounting purposes the structured finance facility has been classified as a financing. Accordingly, in connection with the financing neither AMS nor the Company recorded any gain on sale of the assets transferred to the Special Purpose Entity and, on a consolidated basis, the Company will continue to carry on its consolidated balance sheet the student loans and cash and cash equivalents held by the Special Purpose Entity and the associated indebtedness arising from the transaction.

COLLEGE FUND LIFE INSURANCE DIVISION

On April 27, 2001, the Company completed a $100.0 million securitization of alternative (i.e., non-federally guaranteed) student loans originated by the Company's College Fund Life Insurance Division ("CFLD") through its College First Alternative Loan Program. The securitization consisted of two $50.0 million series of Student Loan Asset Backed Notes issued by a Special Purpose Entity. Interest rates on the notes reset monthly in a Dutch auction process, with the initial rate set at 4.75% for each of the Series A-1 and Series A-2 notes. At December 31, 2001, the interest rates on the Series A-1 and Series A-2 notes were 2.3% and 2.12%, respectively. The notes are secured by a pledge of alternative student loans, are rated Aaa by Moody's Investor Service and AAA by Fitch, Inc. and are insured by MBIA. As part of the transaction, the Special Purpose Entity acquired a $70.1 million portfolio of alternative student loans from various affiliates of the Company and established a loan acquisition fund in the amount of $19.1 million (consisting of cash and cash equivalents) to acquire in the future additional student loans originated by the Company's College Fund Life Insurance Division.

The notes represent obligations solely of the Special Purpose Entity and not of the Company or any other subsidiary of the Company. However, for financial reporting and accounting purposes the CFLD structured finance facility has been classified as a financing. Accordingly, in connection with the financing the Company recorded no gain on sale of the assets transferred to the Special Purpose Entity and, on a consolidated basis, the Company continues to carry on its consolidated balance sheet the alternative student loans ($78.5 million principal amount at December 31, 2001) and cash and cash equivalents held by the Special Purpose Entity ($13.9 million at December 31, 2001 classified as restricted cash) and the associated indebtedness ($100.0 million at December 31, 2001, which is included on the Company's consolidated balance sheet as student loan credit facilities) arising from the transaction.

INVESTMENTS

General. The Company has an Investment Committee that monitors the investment portfolio of the Company and its subsidiaries. The Investment Committee receives investment management services from external professionals.

Investments are selected based upon the parameters established in the Company's investment policies. Emphasis is given to the selection of high quality, liquid securities that provide current investment returns. Maturities or liquidity characteristics of the securities are managed by continually structuring the duration of the investment portfolio to be consistent with the duration of the policy liabilities. Consistent with regulatory

requirements and internal guidelines, the Company invests in a range of assets, but limits its investments in certain classes of assets, and limits its exposure to certain industries and to single issuers.

Set forth below is a summary of the Company's investments by category at December 31, 2001 and 2000:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	CARRYING AMOUNT	% OF TOTAL CARRYING VALUE	CARRYING AMOUNT	% OF TOTAL CARRYING VALUE
	(IN THOUSANDS)			
Securities available for sale --				
Fixed maturities, at fair value (cost: 2001 -- $924,709; 2000 -- $827,905)	$ 929,291	76.3	$ 814,433	76.3
Equity securities, at fair value (cost: 2001 -- $42,419; 2000 -- $18,926)	84,445	6.9	16,916	1.6
Mortgage and collateral loans	5,404	0.4	5,368	0.5
Policy loans	20,127	1.7	20,171	1.9
Investment in Healthaxis, Inc.	8,278	0.7	18,442	1.7
Investment in other equity investees	--		43,196	4.0
Short-term investments	171,173	14.0	149,173	14.0

Total investments............	$1,218,718	100.0	$1,067,699	100.0
	==========	=====	==========	=====

The Company's investment at December 31, 2000 in AMLI Commercial Properties Trust ("ACPT") and AMLI Residential Properties Trust ("AMLI Residential") in the amount of $23.2 million and $20.1 million, respectively, is reflected under the caption "Investment in other equity investees". During 2001, ACPT sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sale, the Company recognized its proportionate share of the gain in the amount of $5.3 million. See Note D to Notes to Consolidated Financial Statements. Effective June 30, 2001, the Company changed its method of accounting for its investment in AMLI Residential and the investment is now reflected under the caption "Securities available for sale -- equity securities" at December 31, 2001. See Note D of Notes to Consolidated Financial Statements.

Investment accounting policies. The Company has classified its entire fixed maturity portfolio as "available for sale." This classification requires the portfolio to be carried at fair value with the resulting unrealized gains or losses, net of applicable income taxes, reported in accumulated other comprehensive income as a separate component of stockholders' equity. As a result, fluctuations in fair value, which is effected by changes in interest rates, will result in increases or decreases to the Company's stockholders' equity.

During 2001, the Company recorded an impairment charge for certain fixed and equity maturities in the amount of $3.0 million and $541,000, respectively.

Fixed maturity securities. Fixed maturity securities accounted for 76.1% and 76.3% of the Company's total investments at December 31, 2001 and 2000, respectively. Fixed maturity securities at December 31, 2001 consisted of the following:

	DECEMBER 31, 2001	
	CARRYING VALUE	% OF TOTAL CARRYING VALUE
	(IN THOUSANDS)	
U.S. Treasury and U.S. Government agency obligations........	$ 47,666	5.1%
Corporate bonds..	588,865	63.4
Mortgage-backed securities issued by U.S. Government agencies and authorities.................................	137,049	14.7
Other mortgage and asset backed securities.................	155,711	16.8
	--------	-----
	$929,291	100.0%
	========	=====

Included in the fixed maturity portfolio is a concentration of mortgage-backed securities such as collateralized mortgage obligations and mortgage-backed pass-throughs. To limit its credit risk, the Company invests in mortgage-backed securities that are rated investment grade by the public rating agencies. The Company's mortgage-backed securities portfolio is a conservatively structured portfolio that is concentrated in the less volatile tranches, in the form of planned amortization classes, sequential payment and commercial mortgage-backed securities. The Company's objectives are to minimize prepayment risk during periods of declining interest rates and minimize duration extension risk during periods of rising interest rates. The Company has less than 1% of its investment portfolio invested in the more volatile tranches.

As of December 31, 2001 and 2000, $883.3 million (or 95%) and $779.4 million (or 96%), respectively, of the fixed maturity securities portfolio was rated BBB or better (investment grade) and $45.9 million (or 5%) and $35.0 million (or 4%), respectively, of the fixed maturity securities portfolio was invested in below investment grade securities (rated less than BBB). A quality distribution for fixed maturity securities at December 31, 2001 is set forth below:

	DECEMBER 31, 2001	
RATING	CARRYING VALUE	% OF TOTAL CARRYING VALUE
	(IN THOUSANDS)	
U.S. Governments and AAA	$298,510	32.1%
AA	87,316	9.4
A	266,719	28.7
BBB	230,800	24.8
Less than BBB	45,946	5.0
	$929,291	100.0%

The Company regularly monitors its investment portfolio to attempt to minimize its concentration of credit risk in any single issuer. As of December 31, 2001, and other than the Company's investment in AMLI Residential Properties Trust (which represented 1.6% of the Company's aggregate investment portfolio), the Company's investment in no single issuer represented more than one percent of the Company's aggregate investment portfolio.

With respect to its short-term investments, the Company invests in an institutional money market fund that invests solely in the highest quality United States dollar denominated money market securities of domestic and foreign issuers. At December 31, 2001 and 2000, the Company had short-term investments in this diversified fund in the amount of approximately $154.6 million and $111.8 million, respectively.

CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to health and life insurance claims and reserves, bad debts, investments, intangible assets, income taxes, financing operations and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a more detailed discussion on the application of these and other accounting policies, see Note A of Notes to Consolidated Financial Statements in Item 14 of this Annual Report on Form 10-K, beginning on page F-7.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

CLAIMS RESERVES

The Company establishes liabilities for benefit claims that have been reported but not paid and claims that have been incurred but not reported under health and life insurance contracts. These reserves are developed using actuarial principles and assumptions that consider a number of factors, including historical and current claim payment patterns, product variations, the timely implementation of appropriate rate increases and seasonality.

The Company estimates the relevant factors, based primarily on historical and current data, and uses this information to determine the assumptions underlying its reserve calculations. An extensive degree of judgment is used in this estimation process. For health care costs payable, the reserve balances and the related benefit expenses are highly sensitive to changes in the assumptions used in the reserve calculations. With respect to health claims, the factors that have the greatest impact on the Company's financial results are the medical cost trend, which is the rate of increase in health care costs and the unpredictable variability in actual experience. Any adjustments to prior period reserves are included in the benefit expense of the period in which the need for the adjustment becomes known. Due to the considerable variability of health care costs and actual experience, adjustments to health reserves occur each quarter and are sometimes significant.

ACCOUNTING FOR HEALTH POLICY ACQUISITION COSTS

The Company incurs various costs in connection with the origination and initial issuance of its health insurance policies, including underwriting and policy issuance costs, costs associated with lead generation activities and distribution costs (i.e., sales commissions paid to agents). For financial reporting purposes, underwriting and policy issuance costs with respect to health policies issued through the Company's Self Employed Agency and Student Insurance Divisions are expensed as incurred. Costs associated with generating sales leads with respect to the health business issued through the Self Employed Agency Division are capitalized and amortized over a two-year period. The Company defers the portion of commissions paid to agents and premium taxes with respect to the portion of health premium collected but not yet earned, and the Company amortizes the deferred expense over the period as and when the premium is earned. See Note A of Notes to Consolidated Financial Statements.

With respect to health policies sold through the Company's Self Employed Agency Division, commissions paid to agents with respect to first year policies are higher than commissions paid to agents with respect to policies in renewal years. Accordingly, during periods of increasing first year premium revenue (such as occurred during 2001), the Self Employed Agency Division's overall operating profit margin will be negatively impacted by the higher commission expense associated with first year premium revenue.

GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

Historically, the Company generally has amortized the excess of cost over the underlying value of the net assets of companies acquired on a straight-line basis over twenty to twenty-five years. The Company continually reevaluated the propriety of the carrying amount of goodwill, as well as the amortization period to determine whether current events and circumstances warrant adjustments to the carrying value and/or revised estimates of useful life. The Company assessed the recoverability of goodwill based upon several factors, including management's intention with respect to the operations to which the goodwill relates and those operations' projected future income and undiscounted cash flows. An impairment loss would be recorded in the period such determination was made. At December 31, 2001 and 2000, the Company had goodwill in the amount of $104.7 million and $105.9 million, respectively, and accumulated amortization of $18.7 million and $14.4 million at December 31, 2001 and 2000, respectively, resulting in net goodwill of $86.0 million and $91.5 million at December 31, 2001 and 2000, respectively. Amortization expense recorded for continuing operations totaled $6.3 million, $6.2 million, and $6.3 million in 2001, 2000, and 1999, respectively.

ACCOUNTING FOR AGENT STOCK ACCUMULATION PLANS

The Company sponsors a series of stock accumulation plans (the "Agent Plans") established for the benefit of the independent insurance agents and independent sales representatives associated with UGA -- Association Field Services, New United Agency, Cornerstone Marketing of America, Guaranty Senior Assurance, SeniorsFirst and CFLD Association Field Services. Under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," the Company has established a liability for future unvested benefits under the Agent Plans and adjusts the liability based on the market value of the Company's Common Stock. The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based commission charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based commission charges may result in material non-cash fluctuations in the Company's results of operations. See Note O of Notes to Consolidated Financial Statements.

INVESTMENTS

The Company has classified its investments as available for sale and, accordingly, investments have been recorded at fair value, and unrealized investment gains and losses are reflected in stockholders' equity. Investment income is recorded when earned, and capital gains and losses are recognized when investments are sold. Investments are reviewed periodically to determine if they have suffered an impairment of value that is considered other than temporary. If investments are determined to be impaired, a capital loss is recognized at the date of determination.

Testing for impairment of investments also requires significant management judgment. The identification of potentially impaired investments, the determination of their fair value and the assessment of whether any decline in value is other than temporary are the key judgment elements. The discovery of new information and the passage of time can significantly change these judgments. Revisions of impairment judgments are made when new information becomes known, and any resulting impairment adjustments are made at that time. The current economic environment and recent volatility of securities markets increase the difficulty of determining fair value and assessing investment impairment. The same influences tend to increase the risk of potentially impaired assets.

The Company seeks to match the maturities of invested assets with the payment of expected liabilities. By doing this, the Company attempts to make cash available as payments become due. If a significant mismatch of the maturities of assets and liabilities were to occur, the impact on the Company's results of operations could be significant.

DEFERRED TAXES

The Company has recorded a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. While the Company has considered future taxable income and

ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, in the event that the Company were to determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

LOSS CONTINGENCIES

The Company is subject to proceedings and lawsuits related to insurance claims and other matters. See Note N of Notes to Consolidated Financial Statements. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

PRIVACY INITIATIVES

Recently-adopted legislation and regulations governing the use and security of individuals' nonpublic personal data by financial institutions, including insurance companies, may have a significant impact on the Company's business and future results of operations.

GRAMM-LEACH-BLILEY ACT AND STATE INSURANCE LAWS AND REGULATIONS

The business of insurance is primarily regulated by the states and is also affected by a range of legislative developments at the state and federal levels. The recent Financial Services Modernization Act of 1999 (the so-called Gramm-Leach-Bliley Act, or "GLBA") includes several privacy provisions and introduces new controls over the transfer and use of individuals' nonpublic personal data by financial institutions, including insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities. Additional federal legislation aimed at protecting the privacy of nonpublic personal financial and health information is proposed and over 400 state privacy bills are pending.

GLBA provides that there is no federal preemption of a state's insurance related privacy laws if the state law is more stringent than the privacy rules imposed under GLBA. Accordingly, state insurance regulators or state legislatures will likely adopt rules that will limit the ability of insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities to disclose and use non-public information about consumers to third parties. These limitations will require the disclosure by these entities of their privacy policies to consumers and, in some circumstances, will allow consumers to prevent the disclosure or use of certain personal information to an unaffiliated third party. Pursuant to the authority granted under GLBA to state insurance regulatory authorities to regulate the privacy of nonpublic personal information provided to consumers and customers of insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities, the National Association of Insurance Commissioners has recently promulgated a new model regulation called Privacy of Consumer Financial and Health Information Regulation. Some states issued this model regulation before July 1, 2001, while other states must pass certain legislative reforms to implement new state privacy rules pursuant to GLBA. In addition, GLBA requires state insurance regulators to establish standards for administrative, technical and physical safeguards pertaining to customer records and information to (a) ensure their security and confidentiality, (b) protect against anticipated threats and hazards to their security and integrity, and (c) protect against unauthorized access to and use of these records and information. However, no state insurance regulators have yet issued any final regulations in response to such security and confidentiality requirements. The privacy and security provisions of GLBA will significantly affect how a consumer's nonpublic personal information is transmitted through and used by diversified financial services companies and conveyed to and used by outside vendors and other unaffiliated third parties.

Due to the increasing popularity of the Internet, laws and regulations may be passed dealing with issues such as user privacy, pricing, content and quality of products and services, and those regulations could adversely affect the growth of the online financial services industry. If Internet use does not grow as a result of privacy or security concerns, increasing regulation or for other reasons, the growth of UICI's Internet-based business would be hindered. It is not possible at this time to assess the impact of the privacy provisions on UICI's financial condition or results of operations.

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996

The federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA") contains provisions requiring mandatory standardization of certain communications between health plans (including health insurance companies), electronic clearinghouses and health care providers who transmit certain health information electronically. HIPAA requires health plans to use specific data-content standards, mandates the use of specific identifiers (e.g., national provider identifiers and national employer identifiers) and requires specific privacy and security procedures. HIPAA authorized the Secretary of the federal Department of Health and Human Services ("HHS") to issue standards for the privacy and security of medical records and other individually identifiable patient data.

In December 2000, HHS issued final regulations regarding the privacy of individually-identifiable health information. This final rule on privacy applies to both electronic and paper records and imposes extensive requirements on the way in which health care providers, health plan sponsors, health insurance companies and their business associates use and disclose protected information. Under the new HIPAA privacy rules, the Company will now be required to (a) comply with a variety of requirements concerning its use and disclosure of individuals' protected health information, (b) establish rigorous internal procedures to protect health information and (c) enter into business associate contracts with other companies that use similar privacy protection procedures. The final rules do not provide for complete federal preemption of state laws, but, rather, preempt all contrary state laws unless the state law is more stringent. These rules must be complied with by April 14, 2003.

Sanctions for failing to comply with standards issued pursuant to HIPAA include criminal penalties of up to $250,000 per violation and civil sanctions of up to $25,000 per violation. Due to the complex and controversial nature of the privacy regulations, they may be subject to court challenge, as well as further legislative and regulatory actions that could alter their effect.

In August 2000, HHS published for comment proposed rules related to the security of electronic health data, including individual health information and medical records, for health plans, health care providers, and health care clearinghouses that maintain or transmit health information electronically. The proposed rules would require these businesses to establish and maintain responsible and appropriate safeguards to ensure the integrity and confidentiality of this information. The standards embraced by these rules include the implementation of technical and organization policies, practices and procedures for security and confidentiality of health information and protecting its integrity, education and training programs, authentication of individuals who access this information, system controls, physical security and disaster recovery systems, protection of external communications and use of electronic signatures. These proposed rules have not yet become final.

UICI is currently reviewing the potential impact of the HIPAA privacy regulations on its operations, including its information technology and security systems. The Company cannot at this time predict with specificity what impact (a) the recently adopted final HIPAA rules governing the privacy of individually-identifiable health information and (b) the proposed HIPAA rules for ensuring the security of individually-identifiable health information may have on the business or results of operations of the Company. However, these new rules will likely increase the Company's burden of regulatory compliance with respect to our life and health insurance products and other information-based products, and may reduce the amount of information the Company may disclose and use if the Company's customers do not consent to such disclosure and use. There can be no assurance that the restrictions and duties imposed by the recently adopted final rules on the privacy of individually-identifiable health information, or the proposed rule on security of individually-

identifiable health information, will not have a material adverse effect on UICI's business and future results of operations.

INCOME TAXES

The Company's effective tax rate from continuing operations was 27.0% for 2001 compared to 52.3% for 2000 and 34.6% for 1999. The 2001 effective tax rate varied from the federal tax rate of 35%, primarily due to the decrease in the valuation allowance related to the partial utilization by AMS of its operating loss carryover and a release of a reserve for taxes on undistributed earnings from its subsidiaries that were previously less than 80% owned and are now wholly owned. The 2000 effective tax rate varied from the federal tax rate of 35%, primarily due to the significant operating loss at AMS, from which the Company was not able to recognize a tax benefit. AMS entered the Company's consolidated group for tax purposes on August 3, 2001. Prior to that date AMS filed a separate tax return. As of December 31, 2001, the Company has recognized a net deferred tax asset of $14.9 million. Realization of the net deferred tax asset is dependent on generating sufficient taxable income. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized based on anticipated profits and available tax planning strategies. See Note K of Notes to Consolidated Financial

Statements.

OTHER MATTERS

The state of domicile of each of the Company's domestic insurance subsidiaries imposes minimum risk-based capital requirements that were developed by the NAIC. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances and premium levels based on the perceived degree of risk. Regulatory compliance is determined by a ratio of a company's regulatory total adjusted capital, as defined, to its authorized control level risk-based capital, as defined. Companies' specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. At December 31, 2001, the risk-based capital ratio of each of the Company's domestic insurance subsidiaries significantly exceeded the ratios for which regulatory corrective action would be required.

Dividends paid by domestic insurance companies out of earned surplus in any year are limited by the law of the state of domicile. See Item 5 -- Market for Registrant's Common Stock and Related Stockholder Matters and Note L of Notes to the Consolidated Financial Statements.

INFLATION

Inflation historically has had a significant impact on the health insurance business. In recent years, inflation in the costs of medical care covered by such insurance has exceeded the general rate of inflation. Under basic hospital medical insurance coverage, established ceilings for covered expenses limit the impact of inflation on the amount of claims paid. Under catastrophic hospital expense plans and preferred provider contracts, covered expenses are generally limited only by a maximum lifetime benefit and a maximum lifetime benefit per accident or sickness. Thus, inflation may have a significantly greater impact on the amount of claims paid under catastrophic hospital expense and preferred provider plans as compared to claims under basic hospital medical coverage. As a result, trends in health care costs must be monitored and rates adjusted accordingly. Under the health insurance policies issued in the self-employed market, the primary insurer generally has the right to increase rates upon 30-60 days written notice and subject to regulatory approval in some cases.

The annuity and universal life-type policies issued directly and assumed by the Company are significantly impacted by inflation. Interest rates affect the amount of interest that existing policyholders expect to have credited to their policies. However, the Company believes that the annuity and universal life-type policies are generally competitive with those offered by other insurance companies of similar size, and the investment portfolio is managed to minimize the effects of inflation.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, superseding Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. Statement 144 provides guidance on differentiating between assets held and used, held for sale, and held for disposal other than by sale. Statement 144 requires a three-step approach for recognizing and measuring the impairment of assets to be held and used and also superseded the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and

Infrequently Occurring Events and Transactions, regarding discontinued operations. Statement 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. Early application is encouraged. The provisions of the Statement are to be applied prospectively.

In June 2001, the Financial Accounting Standards Board ("FASB") FASB issued Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Statement 142 also requires that goodwill included in the carrying value of equity method investments no longer be amortized.

The Company will apply Statement 142 beginning in the first quarter 2002. Application of the nonamortization provisions of Statement 142 is expected to result in an increase in net income of approximately $4.5 million ($0.09 per share) in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect, if any, of these tests will be on the results of operations and financial position of the Company.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements set forth herein or incorporated by reference herein from the Company's filings that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Actual results may differ materially from those included in the forward-looking statements. These forward-looking statements involve risks and uncertainties including, but not limited to, the following: changes in general economic conditions, including the performance of financial markets, and interest rates; competitive, regulatory or tax changes that affect the cost of or demand for the Company's products; health care reform; the ability to predict and effectively manage claims related to health care costs; and reliance on key management and adequacy of claim liabilities.

The Company's future results will depend in large part on accurately predicting health care costs incurred on existing business and upon the Company's ability to control future health care costs through product and benefit design, underwriting criteria, utilization management and negotiation of favorable provider contracts. Changes in mandated benefits, utilization rates, demographic characteristics, health care practices, provider consolidation, inflation, new pharmaceuticals/technologies, clusters of high-cost cases, the regulatory environment and numerous other factors are beyond the control of any health plan provider and may adversely affect the Company's ability to predict and control health care costs and claims, as well as the Company's financial condition, results of operations or cash flows. Periodic renegotiations of hospital and other provider contracts coupled with continued consolidation of physician, hospital and other provider groups may result in increased health care costs and limit the Company's ability to negotiate favorable rates. Recently, large physician practice management companies have experienced extreme financial difficulties, including bankruptcy, which may subject the Company to increased credit risk related to provider groups and cause the Company to incur duplicative claims expense. In addition, the Company faces competitive pressure to contain premium prices. Fiscal concerns regarding the continued viability of government-sponsored programs such as Medicare and Medicaid may cause decreasing reimbursement rates for these programs. Any limitation on the Company's ability to increase or maintain its premium levels, design products, implement underwriting criteria or negotiate competitive provider contracts may adversely affect the Company's financial condition or results of operations.

The Company's Academic Management Services Corp. business could be adversely affected by changes in the Higher Education Act or other relevant federal or state laws, rules and regulations and the programs implemented thereunder may adversely impact the education credit market. In addition, existing legislation and future measures by the federal government may adversely affect the amount and nature of federal financial assistance available with respect to loans made through the U.S. Department of Education. Finally the level of competition currently in existence in the secondary market for loans made under the Federal Loan Programs could be reduced, resulting in fewer potential buyers of the Federal Loans and lower prices available in the secondary market for those loans.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded.

The primary market risk to the Company's investment portfolio is interest rate risk associated with investments and the amount of interest that policyholders expect to have credited to their policies. The interest rate risk taken in the investment portfolio is managed relative to the duration of the liabilities. The Company's investment portfolio consists mainly of high quality, liquid securities that provide current investment returns. The Company believes that the annuity and universal life-type policies are generally competitive with those offered by other insurance companies of similar size. The Company does not anticipate significant changes in the primary market risk exposures or in how those exposures are managed in the future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Profitability of the student loans is affected by the spreads between the interest yield on the student loans and the cost of the funds borrowed under the various credit facilities. Although the interest rates on the student loans and the interest rate on the credit facilities are variable, the gross interest earned by lenders on Stafford student loans uses the results of 91-day T-bill auctions as the base rate, while the base rate on the credit facilities is LIBOR. The effect of rising interest rates on earnings on Stafford loans is generally small, as both revenues and costs adjust to new market levels. In addition to Stafford loans, the Company holds PLUS loans on which the interest rate yield is set annually beginning July 1 through June 30 by regulation at a fixed rate. The Company had approximately $207.8 million principal amount of PLUS loans outstanding at December 31, 2001. The fixed yield on PLUS loans was 8.99% for the twelve months ended June 30, 2001 and was reset to 6.79% for the twelve months beginning July 1, 2001. These loans are financed with borrowings whose rates are subject to reset, generally monthly. During the twelve months beginning July 1, 2001, the cost of borrowings to finance this portion of the student loan portfolio could rise or fall while the rate earned on the student loans will remain fixed.

Sensitivity analysis is defined as the measurement of potential loss in future earnings, fair values or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected time. In the Company's sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible near-term changes in those rates. "Near term" is defined as a period of time going forward up to one year from the date of the consolidated financial statements.

In this sensitivity analysis model, the Company uses fair values to measure its potential loss. The primary market risk to the Company's market sensitive instruments is interest rate risk. The sensitivity analysis model uses a 100 basis point change in interest rates to measure the hypothetical change in fair value of financial instruments included in the model. For invested assets, duration modeling is used to calculate changes in fair values. Duration on invested assets is adjusted to call, put and interest rate reset features.

The sensitivity analysis model produces a loss in fair value of market sensitive instruments of $42.7 million based on a 100 basis point increase in interest rates as of December 31, 2001. This loss value only reflects the impact of an interest rate increase on the fair value of the Company's financial instruments.

The Company has not used derivative financial instruments in managing its market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The audited consolidated financial statements of the Company and other information required by this Item 8 are included in this Form 10-K beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See the Company's Proxy Statement to be filed in connection with the 2002 Annual Meeting of Shareholders, of which the section entitled "Election of Directors" is incorporated herein by reference.

For information on executive officers of the Company, reference is made to the item entitled "Executive Officers of the Company" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

See the Company's Proxy Statement to be filed in connection with the 2002 Annual Meeting of Stockholders, of which the subsection entitled "Executive Compensation" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See the Company's Proxy Statement to be filed in connection with the 2002

Annual Meeting of Stockholders, of which the subsection entitled "Nominees" and the subsection entitled "Beneficial Ownership of Common Stock" are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See the Company's Proxy Statement to be filed in connection with the 2002 Annual Meeting of Stockholders, of which the subsection entitled "Certain Relationships and Related Transactions" is incorporated herein by reference. See Note M of Notes to Consolidated Financial Statements.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements

The following consolidated financial statements of UICI and subsidiaries are included in Item 8:

Financial Statement Schedules

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not applicable and therefore have been omitted.

(a) Exhibits

The response to this portion of Item 14 is submitted as a separate section of this report beginning on page 55.

(b) Reports on Form 8-K

1. A current report on Form 8-K dated December 21, 2001 regarding a settlement of shareholder derivative litigation captioned Richard Schappel v. UICI, Ronald Jensen, Richard Estell, Vernon Woelke, J. Michael Jaynes, Gary Friedman, John Allen, Charles T. Prater, Richard Mockler and Robert B. Vlach.

2. A current report on Form 8-K dated February 8, 2002 regarding a presentation by the Company's representatives at the Wall Street Analyst Forum's Institutional Investor Conference in New York City.

3. A current report on Form 8-K dated March 4, 2002 regarding the acquisition by the Company of STAR Human Resources Group, Inc. and STAR Administrative Services, Inc.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UICI

By /s/ GREGORY T. MUTZ*

Gregory T. Mutz,
President, Chief Executive Officer,
and Director

Date: March 21, 2002

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DA
/s/ RONALD L. JENSEN* Ronald L. Jensen	Chairman of the Board and Director	March 2
/s/ GREGORY T. MUTZ* Gregory T. Mutz	President, Chief Executive Officer, and Director	March 2
/s/ MATTHEW R. CASSELL Matthew R. Cassell	Vice President and Chief Financial Officer	March 2
/s/ GLENN W. REED	Executive Vice President, General Counsel, and Director	March 2

Glenn W. Reed		
/s/ STUART D. BILTON* Stuart D. Bilton	Director	March 2
/s/ GEORGE H. LANE, III* George H. Lane, III	Director	March 2
/s/ WILLIAM J. GEDWED* William J. Gedwed	Director	March 2
/s/ PATRICK J. MCLAUGHLIN* Patrick J. McLaughlin	Director	March 2
/s/ RICHARD T. MOCKLER* Richard T. Mockler	Director	March 2

SIGNATURE	TITLE	DA
/s/ MARK D. HAUPTMAN Mark D. Hauptman	Vice President and Chief Accounting Officer	March 2
*By: /s/ GLENN W. REED Glenn W. Reed (Attorney-in-fact)	(Attorney-in-fact)	March 2

ANNUAL REPORT ON FORM 10-K
ITEM 8, ITEM 14(A)(1) AND (2), (C), AND (D)
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
FINANCIAL STATEMENT SCHEDULES
CERTAIN EXHIBITS

YEAR ENDED DECEMBER 31, 2001

UICI

AND

SUBSIDIARIES
DALLAS, TEXAS

REPORT OF INDEPENDENT AUDITORS

Board of Directors
UICI

We have audited the accompanying consolidated balance sheets of UICI and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UICI and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Dallas, Texas
February 6, 2002, except for Note T,
as to which the date is February 28, 2002

UICI AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2001	2000
	(DOLLARS IN THOUSANDS,	

EXCEPT SHARE AMOUNTS)

ASSETS

Investments		
Securities available for sale --		
Fixed maturities, at fair value (cost: 2001 -- $924,709; 2000 -- $827,905)	$ 929,291	$ 814,433
Equity securities, at fair value (cost: 2001 -- $42,419; 2000 -- $18,926)	84,445	16,916
Mortgage and collateral loans	5,404	5,368
Policy loans	20,127	20,171
Investment in Healthaxis, Inc.	8,278	18,442
Investment in other equity investees	--	43,196
Short-term investments	171,173	149,173
Total Investments	1,218,718	1,067,699
Cash and cash equivalents	50,922	80,869
Student loans	1,278,427	1,156,072
Restricted cash	295,182	222,660
Reinsurance receivables	63,825	65,056
Due premiums and other receivables	50,793	44,364
Investment income due and accrued	60,879	62,014
Refundable income taxes	5,317	10,320
Deferred acquisition costs	73,928	68,125
Goodwill	86,010	91,523
Deferred income tax	14,856	32,949
Property and equipment, net	72,548	75,020
Other assets	14,479	13,177
	$3,285,884	$2,989,848

LIABILITIES AND STOCKHOLDERS' EQUITY

Policy liabilities:		
Future policy and contract benefits	$ 423,297	$ 423,046
Claims	354,011	288,532
Unearned premiums	95,399	95,127
Other policy liabilities	18,654	17,927
Accounts payable	52,577	40,804
Other liabilities	99,102	110,511
Collections payable	140,894	111,787
Note payable to related party	--	18,954
Debt	25,303	71,037
Student loan credit facilities	1,506,202	1,334,847
Net liabilities of discontinued operations, including reserve for losses on disposal	35,873	30,171
	2,751,312	2,542,743
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, par value $0.01 per share -- authorized 10,000,000 shares, no shares issued and outstanding in 2001 and 2000	--	--
Common Stock, par value $0.01 per share -- authorized 100,000,000 shares in 2001 and 2000; 49,404,323 issued and 46,669,237 outstanding in 2001; 48,292,580 issued and 46,950,962 outstanding in 2000	494	483
Additional paid-in capital	201,328	183,162
Accumulated other comprehensive income (loss)	30,294	(10,068)
Retained earnings	317,169	274,277

Treasury stock, at cost (978,006 shares in 2001 and 87,456 shares in 2000)	(14,713)	(749)
	534,572	447,105
	$3,285,884	$2,989,848

See notes to consolidated financial statements.

UICI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
REVENUE			
Premiums:			
Health (includes amounts received from related parties of $6,329, $3,835, and $-0- in 2001, 2000 and 1999, respectively)	$ 797,367	$ 651,411	$ 649,541
Life premiums and other considerations	34,679	36,814	40,291
	832,046	688,225	689,832
Investment income	83,829	89,775	82,869
Other interest income (includes amounts received from related parties of $20, $911 and -0-in 2001, 2000 and 1999, respectively)	88,427	111,415	65,055
Other fee income (includes amounts received from related parties of $7,753, $3,755, and $6,945 in 2001, 2000, and 1999, respectively)	94,022	103,718	113,309
Other income	3,094	2,164	3,481
Gain on sale of HealthAxis.com shares	--	26,300	--
Gains (losses) on sale of investments	5,165	(1,942)	(367
	1,106,583	1,019,655	954,179
BENEFITS AND EXPENSES			
Benefits, claims, and settlement expenses	530,969	439,704	470,273
Underwriting, acquisition, and insurance expenses (includes amounts paid to related parties of $28,760, $31,249, and $15,266 in 2001, 2000, and 1999, respectively)	293,803	239,364	225,062
Stock appreciation expense	7,293	5,300	5,000
Other expenses, (includes amounts paid to related parties of $10,982, $7,967, and $2,002 in 2001, 2000, and 1999, respectively)	101,084	117,061	114,264
Depreciation (includes expense on assets purchased from related parties of $510, $688, and $-0- in 2001, 2000, and 1999, respectively)	15,885	14,037	13,612
Interest expense (includes amounts paid to related parties of $98, $4,559, and $-0- in 2001, 2000, and 1999,			

respectively)...	5,018	13,639	7,430
Interest expense -- student loan credit facility..........	69,448	101,596	57,462
Equity in operating loss from Healthaxis, Inc. investment...	10,597	15,623	--
Goodwill amortization....................................	6,263	6,193	6,279
	1,040,360	952,517	899,382
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES.......	66,223	67,138	54,797
Federal income taxes.....................................	17,865	35,120	18,983
INCOME FROM CONTINUING OPERATIONS..........................	48,358	32,018	35,814
DISCONTINUED OPERATIONS:			
Loss from operations, (net of income tax benefit $2,937, $1,376, and $52,054 in 2001, 2000, and 1999, respectively)..	(5,466)	(2,885)	(97,196
Estimated loss on disposal (net of income tax benefit of $-0-, $12,600, and $45,500 in 2001, 2000, and 1999, respectively)..	--	(23,400)	(84,500
	(5,466)	(26,285)	(181,696
NET INCOME (LOSS)...	$ 42,892	$ 5,733	$(145,882
Earnings (loss) per share:			
Basic earnings (loss)			
Income from continuing operations....................	$ 1.04	$ 0.68	$ 0.77
Loss from discontinued operations....................	(0.12)	(0.56)	(3.92
Net income (loss)....................................	$ 0.92	$ 0.12	$ (3.15
Diluted earnings (loss)			
Income from continuing operations....................	$ 1.01	$ 0.67	$ 0.75
Loss from discontinued operations....................	(0.11)	(0.55)	(3.80
Net income (loss)....................................	$ 0.90	$ 0.12	$ (3.05

See notes to consolidated financial statements.

UICI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAI EARNI
			(DOLLARS IN THOUSAND	
Balance at January 1, 1999.........................	$464	$166,489	$13,412	$414,
Comprehensive income:				
Net loss...				(145,
Other comprehensive loss, net of tax:				

Change in unrealized gains (losses) on securities			(67,411)	
Deferred income tax benefit			22,744	
Other			823	
Other comprehensive loss				
Comprehensive loss				
Exercise of stock options and warrants	2	6,568		
Purchase of treasury stock				
Retirement of treasury stock		(6,952)		
Capital contribution		10,129		
Notes receivable from shareholders		(2,649)		
Balance at December 31, 1999	466	173,585	(30,432)	268,
Comprehensive income:				
Net income				5,
Other comprehensive income, net of tax:				
Change in unrealized gains (losses) on securities			31,302	
Deferred income tax expense			(10,391)	
Other			(547)	
Other comprehensive income				
Comprehensive income				
Common stock issued	17	9,047		
Common shares unearned		(6,271)		
Retirement of treasury stock				
Sale of treasury stock		(3,125)		
Capital contribution		8,905		
Payments on notes receivable from shareholders		1,021		
Balance at December 31, 2000	483	183,162	(10,068)	274,
Comprehensive income:				
Net income				42,
Other comprehensive income, net of tax:				
Change in unrealized gains (losses) on securities			62,090	
Deferred income tax expense			(21,608)	
Other			(120)	
Other comprehensive income				
Comprehensive income				
Common stock issued	11	15,336		
Exercise stock options		28		
Purchase of treasury stock				
Payments on notes receivable from shareholders		2,802		
Balance at December 31, 2001	$494	$201,328	$30,294	$317,

See notes to consolidated financial statements.

UICI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income (loss)	$ 42,892	$ 5,733	$ (145,8
Loss on Disposal of Discontinued Operation	--	36,000	130,0
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Amounts charged to loss on disposal of discontinued operations	(7,675)	(131,898)	
Increase in policy liabilities	83,364	32,466	10,5
Decrease (increase) in accrued investment income	1,135	(7,466)	(10,4
Increase (decrease) in other liabilities and accrued expenses	8,154	(49,546)	26,3
Increase (decrease) in collections payable	29,107	(1,270)	
Stock appreciation expense	7,351	5,308	
Deferred income tax (benefit) change	(3,513)	45,325	(75,2
Decrease in federal income taxes payable	--	--	(36,1
Refundable income taxes	5,003	11,095	(21,4
Decrease (increase) in reinsurance receivables and other receivables	2,675	(5,693)	18,2
Acquisition costs deferred	(43,198)	(21,654)	(19,1
Amortization of deferred acquisition costs	37,655	23,664	31,9
Depreciation and amortization	25,393	25,671	26,4
Operating loss of Healthaxis, Inc.	10,597	15,623	
(Gains) loss on sale of investments	(10,805)	(25,889)	3
Other items, net	1,708	21,260	5,9
Cash Provided by (Used in) Operating Activities	189,843	(21,271)	(58,3
INVESTING ACTIVITIES			
Securities available-for-sale			
Purchases	(397,085)	(123,617)	(207,2
Sales	219,773	150,078	111,1
Maturities, calls and redemptions	81,559	49,917	49,2
Credit card loans			
Fundings	--	(221,530)	(411,5
Repayments	--	288,084	357,1
Sales	--	124,122	
Student loans			
Purchases and originations	(757,062)	(783,600)	(1,144,1
Maturities	187,772	165,894	75,8
Sales	446,934	787,684	434,1
Other investments			
Purchases	(2,807)	(2,173)	(4,9
Sales, repayments and maturities	24,169	8,859	3,2
Decrease (increase) in restricted cash	(70,426)	267,060	(311,3
Short-term investments -- net	(24,093)	21,709	(26,6
Purchase of subsidiaries and life and health business net of cash acquired of $-0-, $425, and $20, in 2001, 2000, and 1999, respectively	--	(4,481)	(52,2
Proceeds from subsidiaries sold, net of cash disposed of			

$1 in 2001; $8,319 in 2000; and $-0- in 1999	140	36,854	
Sale of two million shares of HealthAxis.com	--	30,000	
Additions to property and equipment	(16,536)	(17,138)	(29,4
Decrease (increase) in agents' receivables	(4,121)	(2,870)	9
Cash Provided by (Used in) Investing Activities	(311,783)	774,852	(1,155,8

UICI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS)		
FINANCING ACTIVITIES			
Net cash provided by (used in) time deposits	--	(290,023)	191,1
Proceeds from notes payable	--	104,000	127,4
Repayment of notes payable	(45,732)	(189,015)	(45,6
Issuance of note receivable to related party	--	(35,000)	
Proceeds from note receivable from related party	--	35,000	
Proceeds from payable to related party	--	76,000	
Repayment of payable to related party	(18,954)	(57,046)	(4
Proceeds from student loan credit facilities	726,245	723,700	2,487,7
Repayment of student loan credit facilities	(554,892)	(1,095,992)	(1,468,3
Deposits from investment products	14,576	15,965	15,9
Withdrawals from investment products	(30,888)	(45,809)	(38,7
Capital Contributions	--	8,905	10,1
Net change in treasury shares	(13,964)	--	
Other	15,602	2,512	(7,7
Cash Provided by (Used in) Financing Activities	91,993	(746,803)	1,271,3
Net Increase (decrease) in Cash	(29,947)	6,778	57,1
Cash and cash equivalents at Beginning of Period	80,869	74,091	16,9
Cash and cash equivalents at End of Period	$ 50,922	$ 80,869	$ 74,0

See notes to consolidated financial statements.

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of UICI and its subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS

The Company offers insurance (primarily health and life) and selected financial services to niche consumer and institutional markets. Information on the Company's operations by segment is included in Note Q.

The Company issues health insurance policies, including catastrophic coverages, to niche markets, particularly to the self-employed and student markets. Through its Life Insurance Division, the Company offers life insurance and annuity products to individuals through its dedicated field force. Academic Management Services Corp. ("AMS") provides financial solutions for college students and the educational institutions they attend by offering an integrated package of student loans and student loan servicing. UICI holds a significant equity interest (approximately 47% of the issued and outstanding shares at February 12, 2002) in Healthaxis Inc., a publicly traded corporation (Nasdaq: HAXS) that provides web-based connectivity and applications solutions for health benefit distribution and administration. Other Key Factors includes investment income not allocated to the other segments, corporate interest expenses, general expenses relating to corporate operations, variable stock compensation, amortization of goodwill, realized gains or losses on sale of investments and the AMLI operations.

DISCONTINUED OPERATIONS

On March 17, 2000, the Board of Directors of the Company determined, after a thorough assessment of the unit's prospects, that it would exit from its United CreditServ sub-prime credit card business. Accordingly, the United CreditServ unit has been separately reflected as a discontinued operation for financial reporting purposes for all periods presented. The Company completed the sale of substantially all of United CreditServ's non-cash assets during the year 2000. See Note B.

The Company has also determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes for all periods presented. The Company's Special Risk Division has historically specialized in certain niche health-related products (including "stop loss", marine crew accident, organ transplant and international travel accident products), various insurance intermediary services and certain managed care services. The Special Risk Division reported net losses of $(9.2) million, $(2.9) million and $(2.6) million for the years ended December 31, 2001, 2000 and 1999, respectively, which losses were reflected in results from discontinued operations.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

BASIS OF PRESENTATION

The consolidated financial statements have been prepared on the basis of generally accepted accounting principles ("GAAP"). The more significant variances between GAAP and statutory accounting practices prescribed or permitted by regulatory authorities for insurance companies are: fixed maturities are carried at fair value for investments classified as available for sale for GAAP rather than generally at amortized cost; the deferral of new business acquisition costs, rather than expensing them as incurred; the determination of the liability for future policyholder benefits based on realistic assumptions, rather than on statutory rates for mortality and interest; the recording of reinsurance receivables as assets for GAAP rather than as reductions of liabilities; and the exclusion of non-admitted assets for statutory purposes. (See Note L for stockholders' equity and net income from insurance subsidiaries as determined using statutory accounting practices.)

INVESTMENTS

Investments are valued as follows:

Fixed maturities consist of bonds and notes issued by governments, businesses, or other entities, mortgage and asset backed securities and similar securitized loans. All fixed maturity investments are classified as available for sale and carried at fair value.

Equity securities consist of common and non-redeemable preferred stocks and are carried at fair value.

Mortgage and collateral loans are carried at unpaid balances, less allowance for losses.

Policy loans are carried at unpaid balances.

Short-term investments are carried at fair value, which approximates cost.

Investments in other equity investees, including the Company's investment in Healthaxis, Inc., are principally stated at the Company's cost as adjusted for contributions or distributions and the Company's share of the equity investee's income or loss.

Realized gains and losses on sales of investments are recognized in net income on the specific identification basis and include write downs on those investments deemed to have an other than temporary decline in fair values. Unrealized investment gains or losses on securities carried at fair value, net of applicable deferred income tax, are reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity and accordingly have no effect on net income (loss).

Purchases and sales of short-term financial instruments are part of investing activities and not necessarily a part of the cash management program. Short-term financial instruments are classified as investments in the Consolidated Balance Sheets and are included as investing activities in the Consolidated Statements of Cash Flows.

CASH AND CASH EQUIVALENTS

The Company classifies as cash and cash equivalents unrestricted cash on deposit in banks and invested temporarily in various instruments with maturities of three months or less at the time of purchase.

STUDENT LOANS

Student loans (consisting of student loans originated and student loans purchased), are carried at their unpaid principal balances plus capitalized loan origination costs and unamortized premiums on loans purchased in the secondary market.

During 2000, capitalized loan origination costs consisted of the incremental direct costs associated with originating student loans, which were principally salaries and related expenses. During 2001, capitalized loan

origination costs consisted of the incremental direct costs associated with originating student loans, which were principally origination fees charged by the U.S. Department of Education. Capitalized loan origination costs and premiums on purchased loans are amortized over the life of the underlying loans or included in the calculation of gain or loss if loans are sold in the secondary market. The Company had deferred loan origination costs in the amount of $12.1 million and $17.2 million at December 31, 2001 and 2000.

DEFERRED ACQUISITION COSTS

The Company incurs various costs in connection with the origination and initial issuance of its health and life insurance policies and annuities, including underwriting and policy issuance costs, costs associated with lead generation activities and distribution costs (i.e., sales commissions paid to agents).

With respect to health policies issued through the Company's Self Employed Agency and Student Insurance Divisions, for financial reporting purposes underwriting and policy issuance costs are expensed as incurred. Costs associated with generating sales leads with respect to the health business issued through the Self Employed Agency Division are capitalized and amortized over a two-year period. The Company defers the portion of commissions paid to agents and premium taxes with respect to the portion of health premium collected but not yet earned, and the Company amortizes the deferred expense over the period as and when the premium is earned.

Policy acquisition costs associated with traditional life business are capitalized and amortized over the estimated premium-paying period of the related policies, in proportion to the ratio of the annual premium revenue to the total premium revenue anticipated. Such anticipated premium revenue, which is modified to reflect actual lapse experience, is estimated using the same assumptions as are used for computing policy benefits. For universal life-type and annuity contracts, capitalized costs are amortized in proportion to the ratio of a contract's annual gross profits to total anticipated gross profits.

The cost of business acquired through acquisition of subsidiaries or blocks of business is determined based upon estimates of the future profits inherent in the business acquired. Such costs are capitalized and amortized over the estimated premium-paying period. Anticipated investment income is considered in determining whether a premium deficiency exists. The amortization period is adjusted when estimates of current or future gross profits to be realized from a group of products are revised.

The following is an analysis of deferred acquisition costs:

DECEMBER 31,

	2001	2000	1999
	(IN THOUSANDS)		
Costs of policies acquired:			
Beginning of year	$ 4,378	$16,786	$21,000
Additions	900	--	213
Amortization(a)	(1,052)	(2,674)	(4,427)
Sale of National Motor Club	--	(9,734)	--
End of year	4,226	4,378	16,786
Deferred costs of policies issued	69,702	63,747	62,753
Total Deferred Acquisition Costs	$73,928	$68,125	$79,539

(a) The discount rate used in the amortization of the costs of policies acquired ranges from 7% to 8%.

The amortization for the next five years and thereafter of capitalized costs of policies acquired at December 31, 2001 is estimated to be as follows:

	(IN THOUSANDS)
2002	$ 965
2003	900
2004	741
2005	530
2006	402
2007 and thereafter	688
	$4,226

RESTRICTED CASH

At December 31, 2001 and 2000, the Company held restricted cash in the amount of $295.2 million and $222.7 million, respectively. Restricted cash consisted primarily of funds held by AMS for the benefit of participants in AMS' tuition budgeting program and funds securing AMS and College Fund Life Insurance Division student loan credit facilities held in bankruptcy-remote, special purpose entities in the amount of $113.4 million and $86.2 million as of December 31, 2001 and 2000, respectively, which cash may be used only for repayment of associated borrowings and/or acquisitions of additional student loans. See Note J.

A subsidiary of AMS has entered into a trust agreement (the "Trust") with a bank for the safekeeping of payments received from participants in AMS' tuition budgeting program. All funds are held in trust for the benefit of the participants. AMS is entitled to the interest earned on the funds held in the Trust as well as tuition budgeting program fees deposited into the Trust. The Trust held invested assets in the amount of approximately $141.7 million and $112.6 million at amortized cost (which approximated market) at December 31, 2001 and 2000, respectively. The funds are invested in U.S. Treasury securities, government agency securities, high-grade commercial paper, and money market funds of insured depository institutions at December 31, 2001 and 2000.

At December 31, 2001 and 2000, the Company's 80%-owned subsidiary, Sun Tech Processing Systems, LLC ("STP"), held funds in the amount of $21.8 million and $20.8 million, respectively, in an account designated by a court registry, all of which funds are reflected as restricted cash at such dates. The interest of the 20% owner of STP in such cash held in the court registry is reflected in other liabilities on the Company's consolidated balance sheet. The respective interests of the Company and the 20% owner of STP in such funds, which represent the proceeds of the 1998 sale of assets and liquidation of STP, are the subject of pending litigation. See Notes M and N.

Set forth below is a summary of restricted cash held by the Company at December 31, 2001 and 2000:

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
UICI:		
STP Court registry	$ 21,835	$ 20,839
Other	--	601
AMS:		
Student loan credit facilities	113,421	86,156
Tuition installment plan trust	141,663	112,638
Other	2,316	2,426
CFLD:		
Student loan credit facilities	13,851	--
Other	2,096	--
Total restricted cash	$295,182	$222,660

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company establishes allowance for potential losses that could result from defaults or write-downs on various assets. The reserves are maintained at a level that the Company believes is adequate to absorb estimated losses.

The Company's allowance for losses is as follows:

DECEMBER 31,

	2001	2000
	(IN THOUSANDS)	
Agents' receivables	$1,954	$ 1,383
Mortgage loans	1,201	1,701
Student loans	3,585	7,473
Real estate	1,083	1,083
	$7,823	$11,640

PROPERTY AND EQUIPMENT

Property and equipment includes buildings and leasehold improvements, land, and furniture, software and equipment, all of which are reported at depreciated cost that is computed using straight line and accelerated

methods based upon the estimated useful lives of the assets (generally 3 to 7 years for furniture, software and equipment and 30 to 39 years for buildings.)

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Land and improvements	$ 2,884	$ 2,884
Buildings and leasehold improvements	32,844	32,599
Furniture, software and equipment	93,269	84,465
	128,997	119,948
Less accumulated depreciation	56,449	44,928
Property and equipment (net)	$ 72,548	$ 75,020

GOODWILL

Historically, the Company generally has amortized the excess of cost over the underlying value of the net assets of companies acquired on a straight-line basis over twenty to twenty-five years. The Company continually reevaluated the propriety of the carrying amount of goodwill, as well as the amortization period to determine whether current events and circumstances warrant adjustments to the carrying value and/or revised estimates of useful life. The Company assessed the recoverability of goodwill based upon several factors, including management's intention with respect to the operations to which the goodwill relates and those operations' projected future income and undiscounted cash flows. An impairment loss would be recorded in the period such determination was made. At December 31, 2001 and 2000, the Company had goodwill in the amount of $104.7 million and $105.9 million, respectively, and accumulated amortization of $18.7 million and $14.3 million at December 31, 2001 and 2000, respectively, resulting in net goodwill of $86.0 million and $91.5 million at December 31, 2001 and 2000, respectively. Amortization expense recorded for continuing operations totaled $6.3 million, $6.2 million, and $6.3 million in 2001, 2000, and 1999, respectively.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, which prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Statement 142 also requires that goodwill included in the carrying value of equity method investments no longer be amortized. The Company will apply Statement 142 beginning in the first quarter 2002. Application of the nonamortization provisions of Statement 142 is expected to result in an increase in net income of approximately $4.5 million ($0.09 per share) in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect, if any, of these tests will be on the results of operations and financial position of the Company.

FUTURE POLICY AND CONTRACT BENEFITS AND CLAIMS

Traditional life insurance future policy benefit liabilities are computed on a net level premium method using assumptions with respect to current investment yield, mortality, withdrawal rates, and other assumptions determined to be appropriate as of the date the business was issued or purchased by the Company. Future contract benefits related to universal life-type and annuity contracts are generally based on policy account values. Claims liabilities represent the estimated liabilities for claims reported plus claims incurred but not yet

reported. The liabilities are subject to the impact of actual payments and future changes in claim factors; as adjustments become necessary they are reflected in current operations.

RECOGNITION OF PREMIUM REVENUES AND COSTS

Premiums on traditional life insurance are recognized as revenue when due. Benefits and expenses are matched with premiums so as to result in recognition of income over the term of the contract. This matching is accomplished by means of the provision for future policyholder benefits and expenses and the deferral and amortization of acquisition costs. Revenues for universal life-type and annuity contracts consist of charges for the cost of insurance, policy administration and surrender charges assessed during the year. Contract benefits that are charged to expense include benefit claims incurred in the period in excess of related contract balances, and interest credited to contract balances.

STUDENT LOAN INCOME

The Company recognizes student loan income as earned, including adjustments for the amortization of premiums. Marketing fees for student loans that are sold to third parties are earned when received and are included in other fee income.

UNEARNED PREMIUMS

Premiums on health insurance contracts are recognized as earned over the period of coverage on a pro rata basis.

Other fee income

Other fee income consists primarily of AMS tuition installment program fees, third party administration fees and agency fees. These fees are recognized as income as services are provided.

Other income

Other income consists primarily of commission and fee income from AMLI Realty Co. subsidiary. Income is recognized as services are provided.

REINSURANCE

Insurance liabilities are reported before the effects of ceded reinsurance. Reinsurance receivables and prepaid reinsurance premiums are reported as assets. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with those used to account for the policies.

ADVERTISING EXPENSE

The cost of advertising is expensed as incurred. The Company incurred $4.5 million, $2.2 million and $3.9 million in advertising costs in 2001, 2000 and 1999, respectively.

FEDERAL INCOME TAXES

Deferred income taxes are recorded to reflect the tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end. The Company has recorded a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded

amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, in the event that the Company were to determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

COMPREHENSIVE INCOME

Included in comprehensive income is the reclassification adjustments for realized gains (losses) included in net income of $(213,000), $(2.6) million, and $35,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

GUARANTY FUNDS AND SIMILAR ASSESSMENTS

The Company is assessed amounts by state guaranty funds to cover losses of policyholders of insolvent or rehabilitated insurance companies, by state insurance oversight agencies to cover the operating expenses of such agencies and by other similar legislative entities. These mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At December 31, 2001 and 2000, the Company had accrued $3.8 million and $1.9 million, respectively, to cover the cost of these assessments. The Company expects to pay these assessments over a period of up to five years, and the Company expects to realize the recorded premium tax offsets and/or policy surcharges over a period of up to 10 years. The Company incurred expenses for guaranty fund assessments in the amount of $2.4 million, $1.3 million, and $587,000 in 2001, 2000, and 1999, respectively. In the fourth quarter of 2001, the Company recorded a charge of $1.3 million, which represented the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administrator.

NEW PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, superseding FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. Statement 144 provides guidance on differentiating between assets held and used, held for sale, and held for disposal other than by sale. Statement 144 requires a three-step approach for recognizing and measuring the impairment of assets to be held and used and also superseded the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, regarding discontinued operations. Statement 144 is effective for the Company's fiscal year beginning January 1, 2002.

In June 2001, the FASB issued Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, Statement 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized.

The Company will apply Statement 142 beginning in the first quarter 2002. Application of the nonamortization provisions of Statement 142 is expected to result in an increase in net income of $4.5 million ($0.09 per share) in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required

impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

Reclassification

Certain amounts in the 2000 and 1999 financial statements have been reclassified to conform to the 2001 financial statement presentation associated with discontinued operation treatment of the Special Risk Division.

NOTE B -- DISCONTINUED OPERATIONS

UNITED CREDITSERV

Through the Company's United CreditServ, Inc. subsidiary ("United CreditServ"), prior to 2000 the Company marketed credit support services to individuals with no, or troubled credit experience and assisted such individuals in obtaining a nationally recognized credit card. The activities of United CreditServ were conducted primarily through its wholly-owned subsidiaries United Credit National Bank ("UCNB") (a special purpose national bank, based in Sioux Falls, South Dakota, chartered solely to hold credit card receivables); Specialized Card Services, Inc. (provider of account management and collections services for all of the Company's credit card programs); United Membership Marketing Group, Inc. ("UMMG") (a Lakewood, Colorado-based provider of marketing, administrative and support services for the Company's credit card programs); and UICI Receivables Funding Corporation ("RFC"), a single-purpose, bankruptcy-remote entity through which certain credit card receivables were securitized.

In March 2000, the Board of Directors of UICI, after a thorough assessment of the unit's prospects, determined that UICI would exit from its United CreditServ sub-prime credit card business and, as a result, the United CreditServ unit is reflected as a discontinued operation for financial reporting purposes for all periods presented effective December 31, 1999. At December 31, 1999, the Company established a liability for loss on the disposal of the discontinued operation in the amount of $130.0 million (pre-tax), which liability was included in net liabilities of discontinued operations. The liability for loss on disposal established by the Company at December 31, 1999 represented the Company's then-current estimate of all additional losses (including asset write-downs, the estimated loss on the sale of the business and/or the assets and continuing operating losses through the date of sale) that it then believed it would incur as part of any sale of the United CreditServ unit.

Reflecting the terms of the Company's then-pending sale of its United CreditServ business, during the quarter ended June 30, 2000 the Company recorded an additional pre-tax loss, and correspondingly increased the liability for loss on the disposal of the discontinued operation, in the amount of $36.0 million ($23.4 million net of tax). Accordingly, for the full year 2000, the Company reported a pre-tax loss from discontinued operations in the amount of $36.0 million ($23.4 million net of tax). During the year ended December 31, 2000, the discontinued operation incurred a loss from operations in the amount of approximately $131.9 million, which loss was charged to the liability for loss on disposal.

On September 29, 2000, the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivables portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price at closing of approximately $124.0 million. The Company retained United CreditServ's Texas collections facility, and UICI continues to hold United CreditServ's building and real estate in Sioux Falls, South Dakota. The Company has leased the Sioux Falls facilities to the purchaser of the credit card assets pursuant to a long-term lease. UICI also retained the right to collect approximately $250.0 million face amount of previously written off credit card receivables. In

connection with the sale, UICI or certain of its subsidiaries retained substantially all liabilities and contingencies associated with its credit card business, including liability for payment of all certificates of deposit issued by UCNB, loans payable and liabilities associated with pending litigation and other claims.

The 1999 and 2000 operating losses at United CreditServ had a material adverse effect upon the liquidity and cash flows of the Company. Since the Company first announced losses at its United CreditServ unit in December 1999, UICI through United CreditServ contributed to UCNB as capital an aggregate of $176.6 million in cash. UICI at the holding company level funded these cash contributions and other cash needs with the proceeds of sale of investment securities; a borrowing from a third party in the amount of $24.0 million funded in July 2000; approved sales of assets from the holding company to the Company's regulated insurance company subsidiaries completed in June and July 2000 generating cash proceeds in the aggregate amount of approximately $26.2 million; dividends in the amount of $19.0 million paid during the six months ended June 30, 2000 from CLICO (one of its regulated insurance company subsidiaries); the sale to MEGA of CLICO for $19.0 million in July 2000; cash proceeds in the amount of $21.8 million from the disposition of its National Motor Club unit completed in July 2000; and cash on hand.

At December 31, 1999, UCNB had $290.0 million of certificates of deposits outstanding, and UCNB held approximately $110.5 million in cash, cash equivalents and short term U.S. Treasury securities. Following the sale of the Company's United CreditServ unit, UCNB prepaid all of its remaining certificates of deposit then-outstanding in the amount of approximately $79.0 million, and all such deposit liabilities were discharged as of October 23, 2000. Following the prepayment of all deposit liabilities of UCNB, at December 31, 2000 UCNB held cash, cash equivalents and U.S. Treasury securities in the amount of $26.0 million.

On January 29, 2001, UCNB completed its voluntary liquidation in accordance with the terms of a plan of voluntary liquidation approved by the OCC by surrendering to the OCC its national bank charter and distributing to a wholly-owned subsidiary of UICI the residual assets of UCNB, including available cash and cash equivalents in the amount of approximately $26.0 million. As part of the plan of liquidation, and in accordance with the terms of the June 2000 Consent Order issued by the OCC against UICI, UICI expressly assumed all liabilities of UCNB, including contingent liabilities associated with pending and future litigation. In addition, on January 29, 2001, the OCC vacated the Consent Orders issued against UCNB in February 2000 and June 2000 and the June 2000 Consent Order issued against UICI's United CreditServ subsidiary. The OCC substantially modified the June 2000 Consent Order issued with respect to UICI to eliminate all restrictive provisions except a reconfirmation of UICI's obligation to assume all liabilities of UCNB. Finally, the OCC formally acknowledged the termination by UICI of the liquidity and capital assurances agreement, which formerly provided that, upon demand by UCNB, UICI would assure the liquidity and capital adequacy of UCNB. See Note N.

In addition to the cash sales price received at the September 2000 closing of the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, the sale transaction contemplated an incentive cash payment contingent upon the post-closing performance of the ACE credit card portfolio over a one-year period. The Company's results from discontinued operations in 2001 and the fourth quarter of 2001 included net income after tax in the amount of $3.7 million, associated with the receipt of a $5.7 million cash payment, representing the final settlement of the deferred contingent portion of the purchase price.

Set forth below is a summary of the operating results of the United CreditServ business for each of the years ended December 31, 2001, 2000 and 1999, respectively.

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Revenue:			
Net interest income	$ 27	$ 15,922	$ 20,129
Credit card fees and other income	9,093	109,445	207,246
Total revenues	9,120	125,367	227,375
Expenses:			
Provision for loan losses	--	177,365	211,747
UMMG purchase	--	--	35,944
Operating expenses	7,921	74,619	118,661
Depreciation and amortization	3,173	5,281	6,328
Total expenses	11,094	257,265	372,680
Loss from operations before amounts charged to loss on disposal	(1,974)	(131,898)	(145,305)
Amounts charged to loss on disposal	7,675	131,898	--
Income (loss) from operations	5,701	--	(145,305)
Federal income taxes (benefit)	1,995	--	(50,673)
Income (loss) from operations	3,706	--	(94,632)
Estimated loss on disposal, net of income tax benefit	--	(23,400)	(84,500)
Income (loss) from United CreditServ discontinued operations	$ 3,706	$ (23,400)	$(179,132)

At December 31, 2000, the remaining assets of United CreditServ operations in the amount of $54.3 million (consisting of cash and short-term investments in the amount of $27.8 million and other assets in the amount of $26.5 million) were reclassified to cash and other assets, respectively, on the Company's consolidated balance sheet, and the remaining liabilities of the discontinued operations in the amount of $53.0 million (consisting of notes payable in the amount of $4.3 million and other liabilities in the amount of $48.7 million) were reclassified to notes payable and other liabilities, respectively, on the Company's consolidated balance sheet.

SPECIAL RISK DIVISION

The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. The Company's Special Risk Division has historically specialized in certain niche health-related products (including "stop loss", marine crew accident, organ transplant and international travel accident products), various insurance intermediary services and certain managed care services. The Special Risk Division reported net losses of $(9.2) million, $(2.9) million and $(2.6) million for the years ended December 31, 2001, 2000 and 1999, respectively, which losses were reflected in results from discontinued operations.

Set forth below is a summary of the operating results of the Special Risk Division for each of the years ended December 31, 2001, 2000 and 1999, respectively:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Revenue:			
Premiums	$ 20,661	$20,726	$46,755
Investment income	1,873	2,676	2,628
Other income	4,036	6,768	9,621
Gain (loss) on sale of investments	(61)	1,531	--
Total revenues	26,509	31,701	59,004
Expenses:			
Benefits, claims and settlement expenses	31,056	24,753	44,301
Underwriting, acquisition and insurance expenses	8,615	10,724	18,294
Other expenses	870	325	82
Depreciation and amortization	72	160	272
Total expenses	40,613	35,962	62,949
Loss from operations	(14,104)	(4,261)	(3,945)
Federal income taxes benefit	(4,932)	(1,376)	(1,381)
Loss from Special Risk discontinued operations	$ (9,172)	$(2,885)	$(2,564)

Set forth below is a summary of the financial condition of the Special Risk Division as of December 31, 2001 and 2000:

	YEAR ENDED DECEMBER 31, 2001	2000
	(IN THOUSANDS)	
Assets:		
Cash and short-term investments	$ 977	$ 2,541
Reinsurance, due premiums and other receivables	52,843	50,892
Other Assets	714	1,095
Total assets	54,534	54,528
Liabilities:		
Policy liabilities	79,384	79,062
Other liabilities	11,023	5,638
Total liabilities	90,407	84,700
Net liabilities from Special Risk discontinued operations	$(35,873)	$(30,172)

NOTE C -- ACQUISITIONS AND DISPOSITIONS

On August 3, 2001, the Company completed the acquisition from AMS' former chief executive officer of the remaining 25% common stock interest in AMS it did not already own for a purchase price of $750,000. For additional consideration, the former chief executive officer and certain former employees of AMS agreed, for a three-year period ending in August 2004, not to engage in any business competitive with AMS' tuition

installment or student loan servicing businesses. These former executives and their affiliates further agreed to pay to AMS fees in prescribed amounts in connection with the origination and consolidation of certain student loans over a three-year period ending in August 2004.

Effective May 31, 2001, WinterBrook Holdings, Inc. (a wholly-owned subsidiary of the Company) sold its 44% minority interest in Cassidy Employee Benefit Services, LLC ("Cassidy") to Cassidy for $140,000 in cash. The remaining equity holders of Cassidy constituted members of Cassidy management.

Effective April 1, 2001, Specialized Card Services, Inc. ("SCS"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with an unaffiliated third party to form a new venture to engage in the business of collecting charged off consumer debt. In exchange for 50% of the common stock in the newly formed entity and $3.0 million liquidation value of preferred stock, SCS contributed to the newly formed corporation the business operations of its Harker Heights, Texas collection facility at net book value and certain previously written-off credit card receivables.

On July 27, 2000, the Company sold to an investor group consisting of members of the family of Ronald L. Jensen (the Company's Chairman) (including Mr. Jensen) (the "NMC Buyer") its 97% interest in NMC Holdings, Inc. ("NMC"), the parent company of its National Motor Club of America unit, for a purchase price of $56.8 million, representing 97% of the value of NMC as determined by independent appraisal. The purchase price was paid at closing in cash in the amount of $21.8 million and by delivery of a promissory note (the "NMC Note") issued by the NMC Buyer in the principal amount of $35.0 million. See Note M. The $12.6 million, net of tax, received in excess of the net book value of NMC was reflected as an increase to additional paid in capital.

Effective July 31, 2000, a wholly-owned subsidiary of the Company sold all of its outstanding shares of UMMG for a purchase price in the amount of $25,000 in cash, with an additional amount of up to $2.0 million payable over the next five years, contingent upon the performance of the business. The purchaser is an entity controlled by the former President of UMMG. UMMG is a Lakewood, Colorado-based provider of marketing, administrative and support services for the Company's credit card programs. In addition, on July 31, 2000, UICI signed a credit agreement with the purchaser, pursuant to which it has agreed to lend to the purchaser up to $1.0 million on a revolving basis. As of December 31 2000, the Company had advanced to the purchaser $1.0 million under the credit agreement.

Effective July 1, 2000, the Company sold the assets of WinterBrook HealthCare Management, LLC (a company engaged in repricing of insurance claims) to an unrelated party for a sales price of $1.9 million. The Company recognized a pre-tax gain of $1.5 million in the quarter ended September 30, 2000 in connection with this sale.

In 1997, pursuant to the terms of a Sale and Administration Agreement, the Company sold certain tangible assets associated with its third party administrator business to Healthcare Management Administrators, Inc. ("HMA") (which is owned by Mr. Jensen) and also agreed to assign associated rights and benefits of licenses of third party administrator business. The purchase price received by the Company was $641,000, which approximated book value of the net assets sold.

In accordance with the terms of a Management and Option Agreement, dated as of April 1, 1999, HMA and Mr. Jensen granted to the Company an option to purchase certain assets, subject to certain corresponding liabilities, associated with the third party administration business of HMA. The option was exercisable on or before January 30, 2000 at an option price equal to the book value of the net tangible assets of HMA to be purchased plus assumption of an obligation to pay WinterBrook VSO, LLC (a company controlled by Mr. Jensen) certain commissions payable over a five year term in an amount not to exceed $4.2 million. The Company delivered notice of exercise of the option on January 25, 2000, and the Company completed the purchase of the assets associated with HMA's third party administration business on February 3, 2000, at a renegotiated purchase price equal to $4.0 million (representing the recorded net book value of the assets

purchased) plus $500,000, representing repayment to Mr. Jensen of cash advances made to HMA subsequent to December 31, 1999. The Company recorded $1.9 million in goodwill in connection with this acquisition and is amortizing the goodwill on a straight line basis over 15 years.

The assets of HMA comprised a part of the assets of UICI Administrators, Inc., which was sold by the Company in January 2002. See Note T.

Effective July 26, 1999, the Company's AMS subsidiary acquired for $58.0 million 100% of the outstanding capital stock of AMS Investment Group, Inc., a holding company whose principal operations consist of Academic Management Services, Inc. The acquisition was financed with the proceeds of AMS borrowings and the issuance to the Company of preferred stock. The Company recorded $49.8 million of goodwill in connection with this acquisition and is amortizing the goodwill on a straight line basis over twenty years. Total fair value of assets acquired was $255.1 million (including goodwill) and fair value of liabilities assumed was $197.1 million at purchase date.

Effective September 30, 1999, the Company acquired from a partnership (the partners of which consisted primarily of certain of the Company's agents) the remaining 21% interest in National Managers Life Insurance Company, Ltd. ("National Managers") for cash in the amount of $794,000 increasing the Company's ownership in National Managers to 100%. The purchase price was based on a predetermined formula that approximated GAAP book value.

In November 1999, the Company's former National Motor Club subsidiary acquired a 90% interest in Landen Bias Corporation (also known as Coachnet) for cash in the amount of $4.6 million. The fair value of the assets (including goodwill) was $6.4 million and the fair value of the liabilities assumed was $1.8 million at the purchase date. Landen Bias Corporation was sold as part of the NMC sale. See Note M.

For financial reporting purposes, the acquisitions described above were accounted for using the purchase method of accounting, and, as a result, the assets and liabilities acquired were recorded at fair value on the dates acquired. The Consolidated Statement of Operations for the year of the acquisition includes the results of operations of each acquired company from their respective dates of acquisition. The effect of these acquisitions on the Company's results of operations was not material. Accordingly, pro forma financial information has not been presented.

NOTE D -- INVESTMENTS

A summary of net investment income is set forth below:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Fixed maturities	$60,356	$60,385	$60,883
Equity securities	4,676	1,228	1,386
Mortgage and collateral loans	503	627	816
Policy loans	1,336	1,333	1,353
Short-term investments	12,826	16,083	10,395
Investment in equity investees	740	9,158	5,801
Other investments	7,077	4,897	5,931
	87,514	93,711	86,565
Less investment expenses	3,685	3,936	3,696
	$83,829	$89,775	$82,869

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Realized gains and (losses) and the change in unrealized investment gains and (losses) on fixed maturity and equity security investments are summarized as follows:

	FIXED MATURITIES	EQUITY SECURITIES	OTHER INVESTMENTS	GAINS (LOSSES) ON INVESTMENTS
	(IN THOUSANDS)			
YEAR ENDED DECEMBER 31:				
2001				
Realized	$ (734)	$ (420)	$6,319	$ 5,165
Change in unrealized	18,054	44,036	--	62,090
Combined	$ 17,320	$43,616	$6,319	$ 67,255
2000				
Realized	$ (3,545)	$26,440	$1,463	$ 24,358
Change in unrealized	29,854	863	585	31,302
Combined	$ 26,309	$27,303	$2,048	$ 55,660
1999				
Realized	$ (802)	$ 885	$ (450)	$ (367)
Change in unrealized	(64,142)	(3,116)	(153)	(67,411)
Combined	$(64,944)	$(2,231)	$ (603)	$(67,778)

Gross unrealized investment gains pertaining to equity securities were $42.6 million, $639,000 and $500,000 at December 31, 2001, 2000 and 1999, respectively. Gross unrealized investment losses pertaining to equity securities were $599,000, $2.6 million and $3.4 million at December 31, 2001, 2000 and 1999, respectively.

The increase in gross unrealized investment gains to $42.6 million in 2001 from $639,000 in 2000 is principally due to the Company changing its method for accounting for its investment in AMLI Residential, effective June 30, 2001, from the equity method to the investment method. See further discussion on AMLI Residential later in this footnote under equity securities.

The amortized cost and fair value of investments in fixed maturities are as follows:

	DECEMBER 31, 2001			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Treasury and U.S. Government agency obligations	$ 46,341	$ 1,423	$ (98)	$ 47,666

Mortgage-backed securities issued by U.S. Government agencies and authorities......	135,706	1,772	(429)	137,049
Other mortgage and asset backed securities..............................	154,362	3,164	(1,815)	155,711
Other corporate bonds.....................	588,300	12,854	(12,289)	588,865
Total fixed maturities...........	$924,709	$19,213	$(14,631)	$929,291

	DECEMBER 31, 2000			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Treasury and U.S. Government agency obligations............................	$ 62,620	$ 1,367	$ (215)	$ 63,772
Mortgage-backed securities issued by U.S. Government agencies and authorities......	70,132	1,189	(346)	70,975
Other mortgage and asset backed securities..............................	148,131	2,143	(2,678)	147,596
Other corporate bonds.....................	547,022	4,448	(19,380)	532,090
Total fixed maturities...........	$827,905	$ 9,147	$(22,619)	$814,433

Fair values for fixed maturity securities are based on quoted market prices, where available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from quotation services.

The amortized cost and fair value of fixed maturities at December 31, 2001, by contractual maturity, are shown below. Fixed maturities subject to early or unscheduled prepayments have been included based upon their contractual maturity dates. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AMORTIZED COST	FAIR VALUE
	(IN THOUSANDS)	
MATURITY		
One year or less..	$ 23,122	$ 23,534
Over 1 year through 5 years...............................	241,862	245,757
Over 5 years through 10 years.............................	234,096	232,700
Over 10 years...	135,561	134,540
	634,641	636,531

Mortgage and asset backed securities	290,068	292,760
Total fixed maturities	$924,709	$929,291

Proceeds from the sale and call of investments in fixed maturities were $224.6 million, $148.0 million and $98.9 million for 2001, 2000 and 1999, respectively. Gross gains of $5.0 million, $1.3 million and $2.1 million, and gross losses of $2.8 million, $5.0 million and $2.9 million were realized on the sale and call of fixed maturity investments during 2001, 2000 and 1999, respectively. Proceeds from the sale of equity investments were $15.8 million, $12.6 million and $12.2 million for 2001, 2000 and 1999, respectively. Gross gains of $1.3 million, $1.1 million and $1.8 million and gross losses of $1.2 million, $867,000 and $935,000 were realized on sales of equity investments during 2001, 2000 and 1999, respectively. Included in 2001 realized losses were impairment charges in the amount of $3.0 million and $541,000 for fixed maturity investments and equity investments, respectively.

Following is a summary of the Company's equity securities:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	COST	FAIR VALUE	COST	FAIR VALUE
	(IN THOUSANDS)			
Common Stocks	$25,716	$67,207	$ 351	$ 412
Non-redeemable preferred stocks	16,703	17,238	18,575	16,504
	$42,419	$84,445	$18,926	$16,916

The Company's investment at December 31, 2000 in AMLI Commercial Properties Trust ("ACPT") and AMLI Residential Properties Trust ("AMLI Residential") in the amount of $23.2 million and $20.1 million, respectively, is reflected under the caption "Investment in other equity investees." In 2001, the Company's investment in AMLI Residential in the amount of $62.8 million is included in equity securities.

The Company changed its method for accounting for its investment in AMLI Residential effective June 30, 2001, from the equity method to the investment method due to its decreased ownership interest to 10.3%. The effect of the accounting change was to increase the carrying value of AMLI Residential on the consolidated balance sheet of the Company at June 30, 2001 from $22.6 million to $62.8 million; the accounting change had no effect on the Company's results of operations for the year ended December 31, 2001. As a result of the accounting change, the Company marks-to-market its investment in AMLI Residential and accordingly, changes in the Company's carrying value of its investment in AMLI Residential are recorded as unrealized gains (or losses) with corresponding changes to the Company's stockholders' equity (net of tax). At December 31,2001 and 2000, the Company's carrying value of its investment in AMLI Residential was

$64.3 million and $23.1 million, respectively.

During 2001, ACPT sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sale, the Company recognized its proportionate share of the gain in the amount of $5.3 million.

The fair value, which represents carrying amounts, of equity securities are based on quoted market prices. For equity securities not actively traded, market values are estimated using values obtained from quotation services.

The carrying amounts of the Company's investments in mortgage, collateral and policy loans approximate fair value which is estimated using a discounted cash flow analysis, at a rate currently being offered for similar loans to borrowers with similar credit ratings.

The carrying values for mortgage and collateral loans are net of allowance of $1.2 million and $1.7 million for 2001 and 2000, respectively.

The Company minimizes its credit risk associated with its fixed maturities portfolio by investing primarily in investment grade securities. Included in fixed maturities is a concentration of mortgage and asset backed securities. At December 31, 2001, the Company had a carrying amount of $292.8 million of mortgage and asset backed securities, of which $137.0 million were government backed, $97.5 million were rated AAA, $25.5 million were rated AA, $23.4 million were rated A, $4.6 million were rated BBB, and $4.8 million were rated below investment grade by external rating agencies. At December 31, 2000, the Company had a carrying amount of $218.6 million of mortgage and asset backed securities, of which $71.0 million were government backed, $75.1 million were rated AAA, $42.0 million were rated AA, $23.4 million were rated A, and $7.1 million were rated BBB by external rating agencies.

The Company regularly monitors its investment portfolio to attempt to minimize its concentration of credit risk in any single issuer. As of December 31, 2001, and other than the Company's investment in AMLI

Residential Properties Trust (which represented 1.6% of the Company's aggregate investment portfolio), the Company's investment in no single issuer represented more than one percent of the Company's aggregate investment portfolio.

With respect to its short-term investments, the Company invests in an institutional money market fund that invests solely in the highest quality United States dollar denominated money market securities of domestic and foreign issuers. At December 31, 2001 and 2000, the Company had short-term investments in this diversified fund in the amount of approximately $154.6 million and $111.8 million, respectively.

Under the terms of various reinsurance agreements (see Note H), the Company is required to maintain assets in escrow with a fair value equal to the statutory reserves assumed under the reinsurance agreements. Under these agreements, the Company had on deposit, securities with a fair value of approximately $84.5 million and $157.7 million as of December 31, 2001 and 2000, respectively. In addition, domestic insurance subsidiaries had securities with a fair value of $17.7 million and $17.4 million on deposit with insurance departments in various states at December 31, 2001 and 2000, respectively.

NOTE E -- INVESTMENT IN HEALTHAXIS, INC.

At December 31, 2001, UICI held beneficially 24,674,838 shares of common stock of Healthaxis, Inc. (HAXS: Nasdaq) ("HAI") (including 354,844 shares acquired on May 23, 2001 from a former employee of HAI for a purchase price of $400,000), representing approximately 47% of the issued and outstanding shares of HAI. Of such 24,674,838 shares held by the Company, 8,581,714 shares (representing 16.2% of HAI's total issued and outstanding shares) were through November 7, 2001 subject to the terms of a Voting Trust Agreement, pursuant to which trustees unaffiliated with the Company have the right to vote such shares. In addition, the Company holds (a) a warrant to purchase 12,291 shares of HAI common stock at an exercise price of $3.01 per HAI share; (b) a warrant to purchase 200,100 shares of HAI common stock at an exercise price of $4.40 per HAI share; (c) a warrant to purchase 10,005 shares of HAI common stock at an exercise price of $12.00 per share; and (d) $1.7 million aggregate principal amount of HAI 2% convertible debentures, which are convertible into an aggregate of 185,185 shares of HAI common stock.

Effective November 7, 2001, (a) Gregory T. Mutz and Patrick J. McLaughlin (the President and a director of UICI, respectively) resigned from the Board of Directors of HAI; (b) the Voting Trust Agreement was terminated; and (c) for the sole purpose of electing directors to the board of directors of HAI, UICI appointed as its proxies the board of directors of HAI, with power to vote 33 1/3% of the number of HAI shares held of record from time to time by UICI, with such proxies to vote such in favor of the nominees that a majority of the directors of HAI shall have recommended stand for election. The authority granted to such proxies will terminate at the earlier to occur of (i) November 7, 2011, (ii) such date as UICI beneficially holds less than 25% of the outstanding shares of common stock of HAI on a fully diluted basis, (iii) such date as any person or persons acting as a "group" beneficially holds a greater percentage of the outstanding shares of HAI common stock on a fully diluted basis than the percentage beneficially owned by UICI, or (iv) the filing by HAI of a voluntary petition in bankruptcy or the filing by a third party of an involuntary petition in bankruptcy with respect to HAI.

HAI is an emerging technology service firm that provides web-based connectivity and applications solutions for health benefit distribution and administration. These solutions, which consist primarily of software products and related services, are designed to assist health insurance payers, third party administrators, intermediaries and employers in providing enhanced services to members, employees and providers through the application of HAI's flexible technology to legacy systems, either on a fully integrated or on an application service provider (ASP) basis.

The Company's interest in HAI was derived from the January 7, 2000 merger (the "Insurdata Merger") of Insurdata Incorporated (formerly a wholly-owned subsidiary of UICI) with and into HealthAxis.com, the

sole operating subsidiary of HAI. HealthAxis.com formerly was a web-based retailer of health insurance products and related consumer services. During 1999 and in advance of the Insurdata Merger, Insurdata transferred to UICI the net assets of Insurdata Administrators (a division of Insurdata engaged in the business of providing third party benefits administration, including eligibility and billing reconciliation) and its member interest in Insurdata Marketing Services, LLC (a subsidiary of Insurdata engaged in the business of marketing third party benefits administration services) for cash in the amount of

$858,000, representing the aggregate book value of the net assets and member interest so transferred. The Company recognized no gain on the non-monetary exchange of stock in the Insurdata Merger due to uncertainty of realization of the gain.

Following the Insurdata Merger, the Company held approximately 43.6%, and HAI held approximately 28.1%, of the issued and outstanding capital stock of HealthAxis.com, the surviving corporation in the Insurdata Merger. On March 14, 2000, the Company sold in a private sale to an institutional purchaser 2,000,000 shares of HealthAxis.com common stock and, giving effect to such sale, the Company held 39.2% of the issued and outstanding shares of common stock of HealthAxis.com.

On September 29, 2000, UICI purchased from a third party $1.7 million principal amount of HAI 2% convertible subordinated debentures and a warrant to purchase 12,291 shares of HAI common stock at an exercise price of $3.01 per share, for a total purchase price of $1.2 million. The debentures mature in September 2005 and are convertible into 185,185 shares of HAI common stock.

On January 26, 2001, HAI acquired all of the outstanding shares of HealthAxis.com that HAI did not then own in a stock-for-stock merger of HealthAxis.com with a wholly-owned subsidiary of HAI (the "HAI Merger"). In the HAI Merger, HealthAxis.com shareholders (including the Company) received 1.334 shares of HAI common stock for each share of HealthAxis.com common stock outstanding.

The Company has accounted for its investment in HAI utilizing the equity method and has recognized its ratable share of HAI income and loss (computed prior to amortization of goodwill recorded in connection with the Insurdata Merger). The Company's carrying value of its investment in HAI was $8.3 million and $18.4 million at December 31, 2001 and 2000, respectively.

Pursuant to the terms of an information technology services agreement, amended and restated as of January 3, 2000 (the "Services Agreement"), HAI provides information systems and software development services (including administration of the Company's computer data center) to the Company and its insurance company affiliates at HAI's cost of such services (including direct costs of HAI personnel dedicated to providing services to the Company plus a portion of HAI's overhead costs) plus a 10% mark-up. The Services Agreement has an initial five-year term ending on January 3, 2005, which is subject to extension by the Company. The Services Agreement is terminable by the Company or HAI at any time upon not less than 180 days' notice to the other party. The Services Agreement does not constitute a requirements contract, does not prevent UICI from obtaining from other third parties (or providing to itself) any or all of the services currently provided by HAI, and does not limit UICI's right or ability to decrease the demand for services from HAI.

Pursuant to the terms of the Services Agreement, UICI paid to HAI $20.4 million, $21.0 million and $23.3 million in 2001, 2000 and 1999, respectively. In addition, HAI has provided to the Company and its affiliates certain other information technology services, including claims imaging and software-related services, for which UICI paid to HAI $10.1 million, $6.4 million and $3.7 million in 2001, 2000 and 1999, respectively. The aggregate amounts paid by UICI to HAI in 2001, 2000 and 1999, respectively, represented 70%, 63% and 58% of HAI's total revenues of $43.8 million, $43.7 million and $46.2 million in such years, respectively. Of total fees paid by the Company to HAI in 2001 and 2000, approximately $5.4 million (or 18%) and $4.9 million (or 16%), respectively, were attributable to services provided to the Company's UICI Administrators unit, which was sold by the Company in January 2002. With a strategic goal of gaining greater control over its information technology resources and development efforts and managing its own information technology staff, the Company continues to seek to reduce its dependence upon HAI for information systems and software development services under the Services Agreement by hiring more of its technology work force directly and by outsourcing and contracting with technology service and software providers other than HAI. Accordingly, the Company believes that overall expenditures to HAI for services in 2002 will be less than such expenditures in 2001 and will likely decline each year thereafter. The Company does not currently intend to renew the Services Agreement when it expires on January 3, 2005.

Set forth below is summary condensed balance sheet and income statement data for HAI as of and for the year ended December 31, 2001 and 2000. This financial information has been adjusted to exclude the effects of push-down accounting for the Insurdata Merger.

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Assets		
Cash and cash equivalents	$13,149	$16,840
Other current assets	6,950	10,597
Property and equipment	3,451	10,616
Other assets	6,331	9,361
Total assets	$29,881	$47,414
Liabilities		
Accounts payable and accrued expenses	$ 5,182	$ 5,780
Debt	27,147	2,804
Other liabilities	2,869	13
Total liabilities	35,198	8,597
Stockholders' equity (deficit)	(5,317)	38,817
Total liabilities and equity	$29,881	$47,414

	YEAR ENDED DECEMBER 31	
	2001	2000
	(IN THOUSANDS)	
Revenue	$ 43,790	$ 43,671
Operating expenses	66,034	82,272
Net loss	$(22,244)	$(38,601)

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NOTE F -- STUDENT LOANS

Primarily through its AMS subsidiary and its College Fund Life Insurance Division, the Company holds federally guaranteed and alternative (i.e.non-federally guaranteed) student loans extended to students at selected colleges and universities.

Following is a summary of the student loans held by the Company at the dates indicated:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
FFELP loans.........................	$1,028,264	$1,068,166	$1,004,319	$1,044,492
Alternative loans -- guaranteed......	196,185	196,185	109,700	109,700
Alternative loans -- non-guaranteed...........	45,491	45,491	32,345	32,345
Deferred loan origination costs......	12,072	--	17,181	--
Allowance for losses................	(3,585)	--	(7,473)	--
Total student loans.................	$1,278,427	$1,309,842	$1,156,072	$1,186,537

Of the aggregate $1,278.4 million and $1,156.1 million carrying amount of student loans held by the Company at December 31, 2001 and 2000, respectively, $1,276.1 million and $1,125.5 million, respectively, were pledged to secure payment of secured student loan indebtedness. See Note J.

The fair value of student loans is estimated based on values of recent sales of student loans by the Company.

FFELP loans are guaranteed as to 98% of principal and accrued interest by the federal government or other private insurers. Certain alternative loans are guaranteed (in an amount ranging from 95% to 100%) as to principal and accrued interest by private insurers. The Company has established a reserve for potential losses on the portion of principal and accrued interest not guaranteed by the federal government or other private insurers and for potential losses on uninsured student loans. The reserve is maintained at a level that the Company believes is adequate to absorb estimated credit losses.

The Company's provision for losses on student loans is summarized as follows:

DECEMBER 31,

	2001	2000	1999
	(IN THOUSANDS)		
Balance at beginning of year	$ 7,473	$2,252	$ 935
Change in provision for losses	(3,888)	5,221	1,317
Balance at end of year	$ 3,585	$7,473	$2,252

The Company recognized interest income from the student loans of $94.4 million, $115.3 million and $66.4 million in 2001, 2000 and 1999, respectively.

During 2000, the Company acquired loans with principal and accrued interest balances of $2.5 million. The Company purchased the loans at a discount of $75,000 in accordance with the terms of purchase agreements. The discount is being amortized over the life of the loans or included in the calculation of gain or loss if loans are sold in the secondary market.

Included in other fees for the year ended December 31, 2001 and 2000 was approximately $11.3 million and $7.8 million, respectively, in gain from the sale of loans. The sold loans had a carrying value of $474.0 million and $765.0 million principal amount at the respective dates of sale in 2001 and 2000, respectively. While AMS sold a lesser principal amount of loans in 2001 than in 2000, the higher net gain in 2001 resulted from lower deferred loan origination costs associated with sold loans in 2001 compared to 2000.

NOTE G -- POLICY LIABILITIES

Liability for future policy and contract benefits consists of the following:

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
Accident & Health	$ 49,302	$ 35,289
Life	224,820	229,467
Annuity	149,175	158,290
	$423,297	$423,046

With respect to traditional life insurance, future policy benefits are computed on a net level premium method using assumptions with respect to current investment yield, mortality and withdrawal rates determined to be appropriate as of the date the business was acquired by the Company. Substantially all reserve interest assumptions range from 7% to 8%. Such liabilities are graded to equal statutory values or cash values prior to maturity.

Interest rates credited to future contract benefits related to universal life-type contracts approximated 5.0%, 5.3% and 5.4% during 2001, 2000 and 1999, respectively. Interest rates credited to the liability for future contract benefits related to annuity contracts generally ranged from 4.0% to 5.5% during 2001, 3.0% to 7.3% during 2000 and 4.5% to 7.2% during 1999.

As described in Note H, the Company has assumed certain life and annuity business from subsidiaries of AEGON USA, INC. ("AEGON"), utilizing the same actuarial assumptions as the ceding company. The liability for future policy benefits related to life business has been calculated using an interest rate of 9% graded to 5% over twenty years for life policies. Mortality and withdrawal rates are based on published industry tables or experience of the ceding company and include margins for adverse deviation. Interest rates credited to the liability for future contract benefits related to these annuity contracts generally ranged from 4.3% to 5.5% during 2001, and 4.8% to 5.5% during 2000 and 1999.

The carrying amounts and fair values of the Company's liabilities for investment-type contracts (included in future policy and contract benefits and other policy liabilities in the consolidated balance sheets) are as follows:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
Direct annuities	$ 84,941	$ 79,165	$ 85,383	$ 79,577
Assumed annuities	64,234	63,977	72,907	72,494
Supplemental contracts without life contingencies	1,593	1,593	1,818	1,818
	$150,768	$144,735	$160,108	$153,889

Fair values under investment-type contracts consisting of direct annuities and supplemental contracts without life contingencies are estimated using the assumption-reinsurance pricing method, based on estimating the amount of profits or losses an assuming company would realize, and then discounting those amounts at a current market interest rate. Fair values for the Company's liabilities under assumed annuity investment-type contracts are estimated using the cash surrender value of the annuity.

Activity in the claims liability is summarized as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999

	(IN THOUSANDS)		
Claims liability at beginning of year, net of related reinsurance recoverables	$278,211	$265,974	$270,396
Add:			
Incurred losses, net of reinsurance, occurring during:			
Current year	551,427	468,278	471,763
Prior years	(20,458)	(28,574)	(1,490)
	530,969	439,704	470,273
Deduct payments for claims, net of reinsurance, Occurring during:			
Current year	287,424	249,575	269,608
Prior years	198,767	177,892	205,087
	486,191	427,467	474,695
Claims liability at end of year, net of related reinsurance recoverables (2001 -- $31,022; 2000 -- $10,321; and 1999 -- $11,577	$322,989	$278,211	$265,974

The above reconciliation shows incurred losses developed in amounts less than originally anticipated due to better than expected experience on the health business in the Self Employed Agency Division in 2001 and 2000. The better than expected experience in 2001 was partially offset by adverse experience on the workers' compensation business. Claims liability reflects no accrual for additional or return of premium.

NOTE H -- REINSURANCE

In 2001, 2000 and 1999, approximately 5%, 11% and 16%, respectively, of the Company's premiums from continuing operations were assumed from AEGON. Prior to 1997, the health business assumed was marketed by UGA Inc. and issued through AEGON's insurance subsidiaries. Under the terms of its coinsurance agreement, AEGON's insurance subsidiaries have agreed to cede and the Company has agreed to assume through coinsurance 60% of the health business previously sold by UGA Inc. agents for business written on AEGON's insurance subsidiaries prior to 1998. In 2001, 2000 and 1999, the Company directly issued the health business written by UGA Inc. agents and retained all of the business. Commencing in May 2001, and in accordance with Assumption Reinsurance Agreements with AEGON, the Company began to assume all of the remaining policies from AEGON as approvals were received from state regulatory authorities. As of December 31, 2001, approximately 75% of the remaining policies have been assumed by the Company from AEGON, and the Company currently anticipates that the balance of the remaining policies will be assumed during 2002. On the policies that have been assumed, the Company has coinsured 40% of the health insurance business back to AEGON. On December 31, 2002, the Company has agreed to acquire the remaining 40% of the coinsured business from AEGON based upon a mutually agreed-upon prescribed price.

The Company's insurance subsidiaries, in the ordinary course of business, reinsure certain risks with other insurance companies. These arrangements provide greater diversification of risk and limit the maximum net loss potential to the Company arising from large risks. To the extent that reinsurance companies are unable to meet their obligations under the reinsurance agreements, the Company remains liable.

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The reinsurance receivable included in the consolidated financial statements at December 31, 2001 and 2000 is as follows:

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
Paid losses recoverable	$ 3,147	$ 3,870
Unpaid losses recoverable	60,559	57,208
Total reinsurance receivable	$63,706	$61,078

The effect of reinsurance transactions reflected in the consolidated financial statements are as follows:

	YEAR ENDED DECEMBER 31, 2001	2000	1999
	(IN THOUSANDS)		
Premiums:			
Premiums Written:			
Direct	$799,562	$610,316	$584,889
Assumed	79,865	99,014	130,475
Ceded	(47,109)	(22,076)	(33,578)
Net Written	$832,318	$687,254	$681,786
Premiums Earned:			
Direct	$802,274	$610,456	$584,038
Assumed	60,154	96,348	132,358
Ceded	(30,382)	(18,579)	(26,564)
Net Earned	$832,046	$688,225	$689,832
Ceded benefits and settlement expenses	$ 22,856	$ 17,683	$ 19,566

In August 1994, the Company entered into an agreement, pursuant to which the Company acquired a block of life insurance and annuity policies. In conjunction with this acquisition, the Company ceded through a coinsurance agreement 100% of the policy liabilities to an unrelated reinsurer. The acquisition required no financial investment by the Company. In July 2001, the reinsurer recovered its investment in the amount of $22.0 million in this block, and the coinsurance agreement was terminated and the company at no cost recaptured all remaining policies.

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UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE I -- DEBT

Set forth below is a summary of the Company's short and long term indebtedness outstanding at December 31, 2001 and 2000 (excluding outstanding indebtedness that was incurred to originate and/or is secured by student loans) (see Note J):

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
Short-term debt:		
Note payable to related party	$ --	$18,954
Other Notes	--	18,000
Current portion of long-term debt	6,498	27,734
Total short-term debt	$ 6,498	$64,688
Long-term debt:		
8.75% Senior Notes	$11,852	$15,803
Other notes	13,451	37,234
	25,303	53,037
Less: current portion of long-term debt	6,498	27,734
Total long-term debt	18,805	25,303
Total short and long term debt	$25,303	$89,991

On June 22, 1994, the Company authorized an issue of its 8.75% Senior Notes due June 2004 in the aggregate amount of $27.7 million. In accordance with the agreement governing the terms of the notes (the "Note Agreement"), commencing on June 1, 1998 and on each June 1 thereafter to and including June 1, 2003, the Company is required to repay approximately $4.0 million aggregate principal together with accrued interest thereon to the date of such repayment. The principal amount of the notes outstanding was $11.9 million and $15.8 million at December 31, 2001 and 2000, respectively. The Company incurred $1.2 million, $1.5 million and $1.9 million of interest expense on the notes in the years ended December 31, 2001, 2000 and 1999, respectively. The Note Agreement contains restrictive covenants that include certain financial ratios, limitations on additional indebtedness as a percentage of certain defined equity amounts and the disposal of certain subsidiaries, including primarily the Company's regulated insurance subsidiaries.

In May 1999, the Company entered into a $100 million unsecured credit facility (the "Bank Credit Facility") with a group of commercial banks. Amounts outstanding under the Bank Credit Facility initially bore interest at an annual rate of LIBOR plus 75 basis points (0.75%). At December 31, 1999, the Company had fully drawn on the Bank Credit Facility, of which $50.0 million was used to repay $50.0 million of debt outstanding under the Company's prior bank facility and $50.0 million was used to fund the UMMG and Academic Management Services acquisitions (completed in May 1999 and July 1999, respectively) and current operations. Effective December 31, 1999, the interest rate on amounts outstanding under the Bank Credit Facility was increased to LIBOR plus 100 basis points (1.00%).

On March 14, 2000, a limited liability company controlled by the Company's Chairman ("Lender LLC") loaned $70.0 million to a newly-formed subsidiary of the Company (the "Lender LLC Loan"). The proceeds of the Lender LLC Loan, together with $5.0 million of cash on hand, were used to reduce indebtedness outstanding under the Bank Credit Facility from $100.0 million to $25.0 million. The Lender LLC Loan bore interest at the prevailing prime rate, was guaranteed by UICI, was due and payable in July 2001 and was secured by a pledge of investment securities and shares of the Company's National Motor Club unit.

As part of the March 2000 paydown of indebtedness under the Bank Credit Facility, the Bank Credit Facility was amended to provide, among other things, that the $25.0 million balance outstanding would be due and payable on July 10, 2000, amounts outstanding under the facility would be secured by a pledge of investment securities and shares of Mid-West National Life Insurance Company of Tennessee ("Mid-West"), and the restrictive covenants formerly applicable to UICI and its restricted subsidiaries (primarily the Company's insurance companies) were made applicable solely to Mid-West. Amounts outstanding under the Bank Credit Facility continued to bear interest at LIBOR plus 100 basis points per annum. On April 11, 2000 and June 28, 2000, the Company made principal payments of $11.0 million and $8.0 million, respectively, under the Bank Credit Facility, and on June 30, 2000, Lender LLC, against payment to the banks of $6.0 million, assumed 100% of the banks' remaining $6.0 million position in the Bank Credit Facility.

Effective July 27, 2000, the Company and the Lender LLC completed a further restructuring of the terms of the Lender LLC Loan. As part of the restructuring, the Company paid to Lender LLC principal owing on the Lender LLC Loan in the amount of $6.0 million and amended the terms of the Lender LLC Loan to provide that the aggregate principal amount of $70.0 million then owing by the Company (the "Amended Lender LLC Loan") would consist of a $32.0 million unsecured tranche and a $38.0 million tranche secured by a pledge of 100% of the capital stock of Mid-West. The Amended Lender LLC Loan (a) matured on January 1, 2002, (b) continued to bear interest at the prevailing prime rate from time to time, with interest accruing but not payable until the earlier to occur of full prepayment of the Lender LLC Loan or January 1, 2002, and (c) was mandatorily prepayable monthly to the extent of 1% of the original outstanding principal balance of the Amended Lender LLC Loan. The security interest in all remaining collateral previously pledged to secure payment of the Lender LLC Loan and indebtedness outstanding under the Bank Credit Facility (including all investment securities and shares of the Company's National Motor Club unit) was released in full, and the Bank Credit Facility was terminated.

In addition to scheduled principal payments totaling $3.5 million made during the course of 2000, on October 20, 2000, the Company prepaid the unsecured tranche of the Amended Lender LLC Loan in the amount of $12.5 million, and on November 2, 2000, the Company prepaid an additional $17.4 million of the unsecured tranche and $17.6 million of the secured tranche. Accordingly, at December 31, 2000, the Company had no indebtedness outstanding under the unsecured tranche and $19.0 million outstanding under the secured tranche of the Amended Lender LLC Loan.

On January 30, 2001, the Company prepaid in full all principal in the amount of $19.0 million, plus accrued interest of $2.1 million, on the secured tranche of the Amended Lender LLC Loan, utilizing a portion of the proceeds received in liquidation of UCNB, and the lender's security interest in 100% of the capital stock of Mid-West was released in full.

On July 19, 2000, the Company's offshore-domiciled insurance companies incurred indebtedness with an institutional lender in the amount of $24.0 million. The indebtedness bore interest at the per annum rate of 11.0%, was scheduled to mature on August 1, 2001, was secured by a pledge of all of the assets of the Company's offshore insurance subsidiaries, and was guaranteed by the Company. The proceeds of the borrowing were advanced to the parent company to fulfill liquidity needs at the parent company. At December 31, 2000, the outstanding balance on the loan was $18.0 million. During 2001, all outstanding principal in the amount of $18.0 million and accrued interest was paid in full.

Effective June 29, 2000, UICI executed and delivered an unsecured promissory note payable to a systems vendor in the amount of $10.0 million, which note bears interest at LIBOR plus 150 basis points (1.5%) (4.09% at December 31, 2001), and is payable as to principal in equal quarterly installments in the amount of $500,000, commencing October 1, 2000, with a final maturity of June 30, 2005. The note was delivered to discharge an account payable by UCS in the amount of $10.0 million owing to the systems vendor, which payable was reflected in the consolidated balance sheet of the Company (included in net liabilities of

discontinued operation). At December 31, 2001 and 2000, the outstanding balance on the note was $7.5 million and $9.5 million, respectively.

Effective October 1, 2000, the Company's AMS subsidiary amended the terms of its unsecured term loan facility (under which, at December 31, 2000, $21.3 million of indebtedness was outstanding) to eliminate all financial covenants. In connection with the amendment of the facility, UICI (the parent company) agreed to unconditionally guarantee the payment when due of such indebtedness. In June 2001, AMS paid off the remaining outstanding indebtedness under this facility.

SCS Specialized Card Services, Inc. (a wholly-owned subsidiary of the Company) ("SCS") has various loans with the South Dakota Board of Economic Development bearing interest at a rate of 3.00% per annum. The balance outstanding under these loans was $4.1 million and $4.3 million at December 31, 2001 and 2000, respectively. The loans mature in 2003 and 2004. The proceeds were used to purchase equipment and leasehold improvements.

AMS has a note payable to Fleet National Bank in the outstanding principal amount of $1.8 million and $2.0 million at December 31, 2001 and 2000, respectively, maturing June 30, 2004. The note bears interest at 5.57% at December 31, 2001, requires principal and interest payments quarterly and is secured by a first mortgage on real estate held by AMS.

Principal payments required in each of the next five years and thereafter are as follows:

(IN THOUSANDS)

2002	$ 6,498
2003	6,814
2004	10,491
2005	1,500
2006	--
2007 and thereafter	--
	$25,303

The fair value of the Company's short-term and long-term debt was $26.2 million and $90.8 million at December 31, 2001 and 2000, respectively. The fair value of the Company's long-term debt is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts of the Company's short-term debt approximate fair values. Total interest paid was $6.4 million, $8.8 million and $8.1 million in the years ended December 31, 2001, 2000 and 1999, respectively.

The weighted-average interest rate on short-term borrowings outstanding at December 31, 2001 and 2000 was 10.1% and 9.3%, respectively.

On January 25, 2002, the Company entered into a three-year bank credit facility with Bank of America, NA and LaSalle Bank National Association. Under the bank credit facility, the Company may borrow from time to time up to $30.0 million on a revolving, unsecured basis. Loans outstanding under the facility will bear interest at the option of the Company at prime plus 1% or LIBOR plus 1%. The Company intends to utilize the proceeds of the facility for general working capital purposes. As of March 8, 2002 the Company had no borrowings outstanding under the facility.

NOTE J -- STUDENT LOAN CREDIT FACILITIES

At December 31, 2001 and 2000, the Company, through its Academic Management Services Corp ("AMS") subsidiary and the College Fund Life Insurance Division, had outstanding an aggregate of

$1,506.2 million and $1,334.8 million of indebtedness, respectfully, under secured student loan credit facilities, of which $1,242.8 million and $1,221.5 million, respectfully, were issued by bankruptcy-remote special purpose entities (a "Special Purpose Entity") which are included in the Company's Consolidated Financial Statements. At December 31, 2001 and 2000, indebtedness outstanding under secured student loan credit facilities (including indebtedness issued by Special Purpose Entities) was secured by federally guaranteed and alternative (i.e., non-federally guaranteed) student loans in the carrying amount of $1,276.1 million and $1,125.5 million, respectively, and by a pledge of cash, cash equivalents and other qualified investments in the amount of $129.4 million and $86.2 million, respectively. All such indebtedness issued under secured student loan credit facilities is reflected as student loan indebtedness on the Company's consolidated balance sheet; all such student loans pledged to secure such facilities are reflected as student loan assets on the Company's consolidated balance sheet; and all such cash, cash equivalents and qualified investments specifically pledged under the student loan credit facilities are reflected as restricted cash on the Company's consolidated balance sheet.

Set forth below is a summary unaudited pro forma December 31, 2001 balance sheet of UICI, adjusted to exclude certain assets (student loans and restricted cash) and certain liabilities (student loan credit facilities) associated with the Company's AMS and College Life Fund Division ("CFLD") operations:

	AT DECEMBER 31, 2001			
	UICI CONSOLIDATED AS REPORTED	AMS AND CFLD SPE FINANCINGS	OTHER AMS FINANCING FACILITIES(1)	AMS TUITION INSTALLMENT PROGRAM(2)
	(IN THOUSANDS) (UNAUDITED)			
Assets:				
Investments	$1,218,718	$ --	$ --	$ --
Student loans	1,278,427	1,053,788	222,262	--
Cash	50,922	--	36,059	--
Restricted cash	295,182	127,272	--	141,663
Investment income due and accrued	60,879	35,840	11,314	--
Other assets	381,756	5,181	116	1,428
Total assets	$3,285,884	$1,222,081	$269,751	$143,091
Liabilities:				
Policy liabilities	$ 891,361	$ --	$ --	$ --
Other liabilities	187,552	3,172	668	--
Collections payable	140,894	--	--	140,894
Notes payable	25,303	--	--	--
Student loan credit facilities	1,506,202	1,242,840	263,362	--
Total liabilities	2,751,312	1,246,012	264,030	140,894
Stockholders' equity (deficit)	534,572	(23,931)(4)	5,721	2,197
Total liabilities and stockholders' equity	$3,285,884	$1,222,081	$269,751	$143,091

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(1) Obligations under AMS' master repurchase agreement and credit facility are partially (approximately $13.0 million at December 31, 2001) guaranteed by the Company.

(2) A trust created for the benefit of participants in AMS' tuition installment program held invested assets in the amount of approximately $141.7 million and $112.6 million at amortized cost (which approximated

market) at December 31, 2001 and 2000, respectively, all of which assets are classified as restricted cash on the Company's consolidated balance sheet. See Note A.

(3) Represents cash and cash equivalents required to be held by CFLD to support certain loan servicing obligations under CFLD's SPE financing.

(4) Includes negative equity in the AMS SPE financings, which is attributable to permitted financing of student loans through AMS SPE financings in excess of par value.

A more detailed summary of such student loan credit facilities is set forth below:

ACADEMIC MANAGEMENT SERVICES CORP.

Following is a summary of debt outstanding under student loan credit facilities at AMS:

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Short-term debt:		
Master repurchase agreement and credit facility...........	$ 263,362	$ 113,389
Current portion of long-term debt........................	619,564	618,374
Total short-term debt.................................	$ 882,926	$ 731,763
Long-term debt:		
Auction Rate notes..	$ 369,550	$ 404,990
Floating Rate notes.......................................	153,725	198,094
Commercial Paper..	619,565	618,374
	1,142,840	1,221,458
Less: current portion of long-term debt..................	619,564	618,374
Total long-term debt..................................	523,276	603,084
Total short and long-term debt.............................	$1,406,202	$1,334,847

In March 1998, AMS entered into a master repurchase agreement and credit facility with a financial institution, the obligations under which are partially (approximately $13.0 million at December 31, 2001) guaranteed by the Company. The proceeds of the facility are used from time to time to initially fund AMS' student loan originations. The repurchase agreement provides for the purchase of student loans by the financial institution, and the financial institution may put the student loans back to AMS on the last day of each month. AMS, in turn, has the right to require the financial institution to repurchase the student loans on such date, with the interest rate on the credit facility reset on such date. The credit facility provides for up to $150.0 million of financing and may be increased subject to monthly confirmations. The credit facility had an outstanding balance of $263.4 million and $113.4 million at December 31, 2001 and 2000, respectively, and bears interest at a variable annual rate of LIBOR plus 75 basis points (2.68% at December 31, 2001). The credit facility has a term of : center">

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Greenwich Loan Income Fund Limited, a Guernsey-based, London Stock Exchange Alternative

T2 Income Fund CLO I Ltd., a CLO structured finance vehicle investing in a diversified

In the course of managing those existing portfolios, the members of Oxford Lane Management s investment team hav

Charles M. Royce is the non-managing member of Oxford Lane Management. Mr. Royce has served as President and

In addition, our executive officers and directors, as well as the current and future members of our investment adviser,

In certain instances, we may co-invest on a concurrent basis with affiliates of our investment adviser, subject to compl

In addition, we will pay BDC Partners, an affiliate of Oxford Lane Management, our allocable portion of overhead an

Investment Focus

Our investment objective is to maximize our portfolio s total return. We will seek to achieve our investment objective

markets) or through investments in entities that in turn own leveraged corporate loans. We intend to initially implement our investment objective by investing principally in the equity and junior debt tranches of CLO vehicles, which are collateralized primarily by leveraged corporate loans, and which generally have very little or no exposure to real estate or mortgage loans or to pools of consumer-based debt, such as credit card receivables or auto loans.

The CLO investments we intend to initially target will generally represent either a residual economic interest, in the case of an equity tranche, or a debt investment collateralized by a portfolio of leveraged corporate loans. The value of our CLO investments will generally depend on both the quality and nature of the underlying portfolio it references and also on the specific structural characteristics of the CLO itself, both of which are described below.

CLO Structural Elements

Structurally, a CLO vehicle is a non-recourse special purpose vehicle established to acquire and manage a portfolio primarily comprised of loans meeting certain established investment criteria and concentration limitations. A CLO vehicle obtains funding to acquire the portfolio by issuing rated debt obligations (notes) and equity. Debt obligations are typically issued in tranches with the most senior tranches rated AAA and the most junior tranches unrated or rated BB. CLO equity may be issued in the form of subordinated income notes or in the form of preference shares.

Equity is referred to as the first loss piece of a CLO vehicle as it will be the first in the capital structure to suffer losses as a result of realized losses on the underlying portfolio. The equity will generally receive periodic payments of any excess interest generated by the portfolio over the liabilities, similar to dividends on stocks. The CLO equity receives the residual value after all note tranches have been fully repaid.

CLO notes have the benefit of overcollateralization (as illustrated below). The junior class of notes have the least overcollateralization and the greatest subordination. The opposite is true for the most senior notes.

The most junior tranche of CLO notes is typically referred to as the second loss piece of a CLO vehicle. The junior tranche is structured as a debt security and receives periodic contractual coupon payments based on the applicable interest rate, which may be fixed or at a floating rate based on a margin over a benchmark, such as LIBOR. At the maturity or liquidation of the CLO vehicle, the principal of this tranche will be repaid only after the more highly-rated tranches are repaid in full.

The above diagram is for illustrative purposes only. The CLO structure highlighted in the above diagram is only a hypothetical structure and structures among CLO vehicles in which we may invest may vary substantially from the hypothetical example set forth above.

The order for payments of all liabilities of a CLO vehicle are set out in detail in the indenture. The contractual provisions setting out this order of payments is referred to as the priority of payments or the waterfall and determine any other obligations that may be required to be paid ahead of payments of interest and principal on the securities issued by a CLO vehicle.

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CLO indentures typically provide for adjustments to the priority of payments in the event that certain cashflow or overcollateralization requirements are not maintained. The collateral quality tests that may divert cashflows in the priority of payments are predominantly determined by reference to the par values of the underlying loans, rather than their current market values. Accordingly, we believe that CLO equity and junior debt investments allow investors to gain diversified exposure to the leveraged corporate loan market on a levered basis without being structurally subject to mark-to-market price fluctuations of the underlying loans. As such, although the current valuations of CLO equity and junior debt tranches are expected to fluctuate based on price changes within the loan market, interest rate movements and other macroeconomic factors, those tranches will be expected to continue to receive distributions from the CLO vehicle periodically so long as the underlying portfolio does not suffer defaults and/or realized losses sufficient to trigger changes in the waterfall allocations. We therefore believe that an investment portfolio consisting of CLO equity and junior debt investments of this type has the ability to provide attractive risk-adjusted rates of return.

The Syndicated Leveraged Corporate Loan Market

We believe that while the syndicated leveraged corporate loan market is relatively large, with Standard and Poor s estimating the total par value outstanding at approximately $500 billion as of March 26, 2010, this market remains largely inaccessible to a significant portion of investors that are not lenders or approved institutions. The CLO market permits wider exposure to syndicated leveraged corporate loans, but this market is almost exclusively private and predominantly institutional. Our strategy provides a platform from which individual investors can access this market on a relatively diversified basis.

The leveraged corporate loan market is characterized by various factors, including:

Seniority. A leveraged corporate loan typically ranks senior in a company s capital structure to all other forms of debt or equity. As such, that loan maintains the senior-most claim on the company s assets and cash flow, and, we believe should, all other things being equal, offer the prospect of a relatively more stable and lower-risk holding.

Floating rate instruments. A leveraged corporate loan typically contains a floating versus a fixed interest rate, which we believe provides some measure of protection against the risk of interest rate fluctuation.

Frequency of interest payments. A leveraged corporate loan typically provides for scheduled interest payments no less frequently than quarterly.

In the current environment, we believe the above attributes seem particularly desirable.

Investment Opportunity

We believe that the leveraged corporate loan market has and continues to represent an attractive area for investment. We believe that the CLO equity and junior debt investments we intend to seek currently represent, as a class, an opportunity to obtain attractive risk-adjusted investment returns. We believe that a number of factors support this conclusion, including:

We believe that price declines in the secondary market for leveraged corporate loans have created opportunities to purchase certain assets at prices that yield attractive risk adjusted returns.

We believe that CLO equity and junior debt instruments have generally become more liquid since mid-2009. From late 2007 through mid-2009, these assets traded less frequently, if at all. We believe that greater recent liquidity has created the opportunity to better analyze and compare various offered equity interests and debt tranches across the respective structures and financial profiles.

We believe that prices, especially on a trade-weighted basis, have fallen considerably since mid-2008. CLO equity and junior debt instruments have moved from trading essentially at par, with a thin secondary market, to a more active market where such instruments currently trade at 30% to 60% of par value. While these indicative valuations have recovered substantially from the lows of the first half of 2009, we believe that very little actual trading occurred during that time.

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We believe that ownership of junior debt and CLO equity instruments have generally been distributed across a range of holders, some of whom we believe may continue to face near- to intermediate-term liquidity issues. Further, we believe that larger institutional investors with sufficient resources to source, analyze and negotiate the purchase of these assets may refrain from purchases of the size that we are targeting, thereby reducing the prospective competition for our target investments.

We believe that successful investment in CLO securities, and CLO equity instruments in particular, requires very high levels of research and analysis. We believe that typically this analysis can only be conducted by knowledgeable market participants, as the nature of that analysis tends to be highly specialized.

We believe that a stronger market for leveraged corporate loans has substantially reduced the risk of par impairment across most CLO structures, thereby reducing the instances where current cashflows otherwise payable to equity must be diverted under the priority of payments to pay down more senior obligations in CLO structures.

We believe that the global CLO market is relatively large, with a total par value of approximately $250 billion among approximately 540 different U.S.-based CLO vehicles and approximately €70 billion among 180 European-based CLO vehicles as of June 1, 2010, according to estimates by Moody s Investors Service. We estimate that the size of the junior-most debt tranches (specifically the tranches originally rated BB) are approximately $9.0 billion for the U.S. CLO market and €2.5 billion for the European CLO market, and the size of the equity tranches is approximately $20 billion and €5.5 billion, respectively.

Investment Selection

Our investment adviser s investment team will be responsible for all aspects of our investment process. Oxford Lane Management s senior investment team currently consists of Messrs. Cohen and Rosenthal, who serve as members of the investment committee of Oxford Lane Management, and Messrs. Monasebian and Srinivasan. While the investment strategy involves a team approach, whereby potential transactions are screened by various members of the senior investment team, both Messrs. Cohen and Rosenthal must approve of all investments in order for them to proceed. See Portfolio Management. The stages of our investment selection process are as follows:

Deal Sourcing

Deal sourcing is maximized through various relationships with industry contacts, brokers, bankers, CLO vehicle sponsors and investors.

Screening

In screening potential investments in CLO vehicles, our investment adviser s investment team will utilize the same value-oriented investment philosophy they employ in their work managing other investment portfolios, including TICC Capital Corp.

CLO Vehicle Characteristics

We have identified several criteria that we believe are important in identifying and investing in prospective CLO vehicles. These criteria provide general guidelines for our investment adviser s decisions; however, not all of these criteria will be met by each prospective CLO vehicle in which they choose to invest. Generally, our investment adviser will seek to utilize its access to information generated by its investment team to identify attractive investment candidates.

Stable Portfolio. We will generally seek to invest in CLO vehicles that we believe are collateralized by a relatively stable portfolio of leveraged corporate loans. We believe focusing on stable CLO vehicles will provide us with a greater opportunity for consistent current cashflows from our investment.

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Diverse Portfolio Base. We will generally seek to invest in CLO vehicles that have a relatively diverse portfolio of corporate borrowers. We will generally seek to avoid investments in CLO vehicles that are heavily weighted towards a small number of borrowers, or that have a majority of borrowers that operate in a particularly industry. We believe focusing on CLO vehicles with a diverse borrower base will help limit our exposure to borrower or industry-specific downturns.

Attractive Discount to Par. We will generally seek to invest in CLO vehicles where we can acquire either an equity or junior debt instrument at a relatively attractive discount to par value, although in certain cases we may invest at par where we believe the opportunity is particularly attractive on a risk-adjusted basis. We believe investing at a significant discount to par generally provides us with a more attractive risk-adjusted return on our investment, while minimizing our downside risk in the event of a default with respect to our investment.

Due Diligence

Our investment adviser s senior investment team will conduct due diligence on prospective investments, consistent with the approach its members have developed over the course of managing other investment vehicles, including TICC Capital Corp. In conducting due diligence, our investment adviser uses publicly available information as well as information otherwise available to it, including through its relationships with CLO vehicle sponsors, consultants, competitors and investment bankers.

Our investment adviser s due diligence is expected to typically include:

- review of financial information regarding prospective investments;
- research relating to leveraged corporate loans; and
- review of the prospective investment s capital structure and the terms and conditions of the investment.

Upon the completion of due diligence, the investment professionals present the opportunity to our adviser s investment committee, which then determines whether to proceed with the potential investment. Additional due diligence with respect to any investment may be conducted on our behalf by outside third-party advisers, as appropriate. Any fees and expenses incurred by Oxford Lane Management in connection with due diligence investigations undertaken by third parties will be subject to reimbursement by Oxford Lane Capital, which reimbursements will be in addition to any management or incentive fees payable under our Investment Advisory Agreement to Oxford Lane Management. While the investment strategy involves a team approach, Oxford Lane Capital may not enter into a transaction without the prior approval of both Messrs. Cohen and Rosenthal.

Ongoing Relationships

Monitoring

Our investment adviser will monitor our investments on an ongoing basis. Our investment adviser has several methods of monitoring the performance and value of our investments, which include the following:

- review of pricing data and indicative bids for recent transactions in our investments;
- comparisons to other leveraged corporate loans and CLO vehicles; and
- review of available financial statements for our investments.

Valuation Procedures

The most significant estimate inherent in the preparation of our financial statements will be the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. There is no single method for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. We will be required to specifically fair value each individual investment on a quarterly basis.

Our Board of Directors will determine the value of our investment portfolio each quarter, after consideration of our Valuation Committee s recommendation of fair value. Oxford Lane Management will

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compile the relevant information, including a financial summary, covenant compliance review and recent trading activity in the security, if known. All available information, including non-binding indicative bids which may not be considered reliable, will be presented to the Valuation Committee to consider in making its recommendation of fair value to the Board of Directors. In some instances, there may be limited trading activity in a security even though the market for the security is considered not active. In such cases the Valuation Committee will consider the number of trades, the size and timing of each trade, and other circumstances around such trades, to the extent such information is available, in making its recommendation of fair value to the Board of Directors. We may elect to engage third-party valuation firms to provide assistance to our Valuation Committee and Board of Directors in valuing certain of our investments. The Valuation Committee will evaluate the impact of such additional information, and factor it into its consideration of fair value.

Competition

We will compete for investments with other investment funds (including private equity funds, mezzanine funds and business development companies), as well as traditional financial services companies such as commercial banks, investment banks, finance companies and other sources of funding. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including CLO vehicles. As a result of these new entrants, competition for investment opportunities in CLO vehicles may intensify. Many of these entities have greater financial and managerial resources than we do. We believe we will be able to compete with these entities primarily on the basis of the experience and contacts of our investment adviser, and our responsive and efficient investment analysis and decision-making processes.

Staffing

We do not currently have any employees. Our day-to-day investment operations will be managed by Oxford Lane Management. Oxford Lane Management s investment team currently consists of the members of its investment committee, Messrs. Cohen and Rosenthal, and Messrs. Monasebian and Srinivasan, who serve as Senior Managing Director and Managing Director, respectively, for Oxford Lane Management, and two additional experienced investment professionals. Oxford Lane Management may retain additional investment professionals, based upon its needs, subsequent to the completion of this offering. See Investment Advisory Agreement.

In addition, we will reimburse BDC Partners for our allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief financial officer, chief compliance officer, and any administrative support staff. See Administration Agreement.

Properties

Our executive offices are located at 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830, and are provided by BDC Partners in accordance with the terms of the Administration Agreement. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

Legal Proceedings

None of us, our investment adviser or administrator, is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us, or against our investment adviser or administrator. From time to time, we, our investment adviser or administrator, may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

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MANAGEMENT

Our Board of Directors oversees our management. The Board of Directors currently consists of five members, three of whom are not interested persons of Oxford Lane Capital as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our Board of Directors elects our officers, who serve at the discretion of the Board of Directors. The responsibilities of each director will include, among other things, the oversight of our investment activity, the quarterly valuation of our assets, and oversight of our financing arrangements. The Board of Directors has also established an Audit Committee and a Valuation Committee, and may establish additional committees in the future.

Board of Directors and Executive Officers

Directors

Information regarding the Board of Directors is as follows:

Name	Age	Position	Director Since	Expiration of Term
Interested Directors				
Jonathan H. Cohen	45	Chief Executive Officer and Director	2010	[ ]
Saul B. Rosenthal	41	President and Director	2010	[ ]
Independent Directors				
Mark J. Ashenfelter	[ ]	Chairman of the Board of Directors	2010	[ ]
John Reardon	[ ]	Director	2010	[ ]
David S. Shin	[ ]	Director	2010	[ ]

The address for each of our directors is c/o Oxford Lane Capital Corp., 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830.

Executive Officers Who Are Not Directors

Name	Age	Position
Patrick F. Conroy	53	Chief Financial Officer, Chief Compliance Officer and Corporate Secretary

Biographical Information

Directors

Our directors have been divided into two groups interested directors and independent directors. An interested director is an interested person as defined in Section 2(a)(19) of the 1940 Act.

Interested Directors

Messrs. Cohen and Rosenthal are interested persons of Oxford Lane Capital as defined in the 1940 Act. Messrs. Cohen and Rosenthal are interested persons of Oxford Lane Capital due to their positions as Chief Executive Officer and President, respectively, of Oxford Lane Capital and Oxford Lane Management, Oxford Lane Capital s investment adviser, and as the managing member and non-managing member, respectively, of BDC Partners, the administrator for Oxford Lane Capital.

Jonathan H. Cohen has served as Chief Executive Officer of both Oxford Lane Capital and Oxford Lane Management since 2010. Mr. Cohen has also served since 2003 as Chief Executive Officer of both TICC Capital Corp., a publicly traded business development company, and TICC Management, LLC, TICC Capital Corp. s investment adviser, and as the managing member of BDC Partners. In addition, Mr. Cohen has served since 2005 as the Chief Executive Officer of T2 Advisers, LLC, which serves as the investment adviser to Greenwich Loan Income Fund Limited (f/k/a T2 Income Fund Limited), a Guernsey fund that invests primarily in leveraged corporate loans across a variety of industries globally and collateral manager of T2 Income Fund CLO I Ltd., a CLO vehicle sponsored by Greenwich Loan Income Fund Limited. Mr. Cohen was also the owner, managing member, and a principal of JHC Capital Management, a registered investment

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adviser, and was previously a managing member and principal of Privet Financial Securities, LLC, a registered broker-dealer, from 2003 to 2004. Prior to founding JHC Capital Management in 2001, Mr. Cohen managed technology research groups at Wit SoundView from 1999 to 2001. He has also managed securities research groups at Merrill Lynch & Co. from 1998 to 1999. Mr. Cohen received a B.A. in Economics from Connecticut College and an M.B.A. from Columbia University. Mr. Cohen s depth of experience in managerial positions in investment management, securities research and financial services, as well as his intimate knowledge of our business and operations, gives the Board of Directors valuable industry-specific knowledge and expertise on these and other matters.

Saul B. Rosenthal has served as our President since 2010. Mr. Rosenthal has also served as Chief Operating Officer since 2003 and President since 2004 of TICC Capital Corp., a publicly traded business development company, and TICC Management, LLC, TICC Capital Corp. s investment adviser, and is a member of BDC Partners. In addition, Mr. Rosenthal has also served since 2005 as the President of T2 Advisers, LLC, which serves as investment adviser for Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in leveraged corporate loans across a variety of industries globally and collateral manager of T2 Income Fund CLO I Ltd., a CLO vehicle sponsored by Greenwich Loan Income Fund Limited. Mr. Rosenthal was previously President of Privet Financial Securities, LLC, a registered broker-dealer, from 2003 to 2004. Mr. Rosenthal serves on the board of Algorithmic Implementations, Inc. (d/b/a Ai Squared) and is a member of the board of the New York chapter of the Young Presidents Organization (YPO-WPO). Mr. Rosenthal received a B.S., magna cum laude, from the Wharton School of the University of Pennsylvania, a J.D. from Columbia University Law School, where he was a Harlan Fiske Stone Scholar, and a LL.M. (Taxation) from New York University School of Law. Mr. Rosenthal s depth of experience in managerial positions in investment management, as well as his intimate knowledge of our business and operations, gives the Board of Directors valuable perspective of a knowledgeable corporate leader.

Independent Directors

The following directors are not interested persons of Oxford Lane Capital, as defined in the 1940 Act.

Mark J. Ashenfelter has served as Chairman of our Board of Directors since 2010. Mr. Ashenfelter also presently serves as a Senior Vice President and the General Counsel of Haebler Capital, a private investment company located in Greenwich, CT. Prior to joining Haebler Capital in 1994, Mr. Ashenfelter was an associate at Cravath, Swaine & Moore from 1985 to 1992 and Cadwalader, Wickersham & Taft from 1992 to 1994. Mr. Ashenfelter received a B.A., cum laude, from Harvard University, a J.D., magna cum laude, from New York Law School, where he was Managing Editor of the Law Review, and a LL.M. (Taxation) from New York University School of Law. Mr. Ashenfelter s extensive corporate legal experience, particularly in connection with investment companies, provides our Board of Directors with valuable insight and perspective.

John Reardon presently serves as the Chief Executive Officer of Maritime Communications/Land Mobile, LLC. Previously, Mr. Reardon managed telecommunications companies in the mobile voice, data and engineering services markets as Chief Executive Officer and a member of the Board of Directors of Mobex Communications, Inc. from 2001 to 2005. From 1997 2001, Mr. Reardon served as General Counsel and Secretary of the Board of Directors of Mobex Communications, Inc. Mr. Reardon began his career in telecommunications law at the firm of Keller and Heckman, LLP, where he served from 1995 to 1997. Mr. Reardon received a B.A., summa cum laude, in Political Science from Boston University and a J.D. from Columbia Law School. Mr. Reardon s extensive experience as a senior corporate executive provides our Board of Directors the perspective of a knowledgeable corporate leader.

David S. Shin presently serves as a Managing Director at Bentley Associates, an investment banking firm. Prior to joining Bentley Associates, Mr. Shin worked in the Global Real Estate Investment Banking Group at Deutsche Bank Securities from 2005 to 2008, and in the Real Estate & Lodging Group of Citigroup Global Markets from 2004 to 2005. Prior to that, Mr. Shin worked for William Street Advisors, LLC, a boutique financial advisory firm affiliated with Saratoga Management Company, from 2002 to 2004. After receiving his J.D. in 1995, Mr. Shin was a member of the Healthcare Group of Dean Witter Reynolds from 1995 to 1996, and was subsequently a member of the Mergers & Acquisitions Group of Merrill Lynch & Co. from 1996 to 2002. Mr. Shin started his career as a CPA in the Corporate Tax Department of KPMG Peat Marwick s Financial Institutions Group, where he served from 1990 to 1992, before attending law school. Mr. Shin received a B.S. from The Wharton School at the University of Pennsylvania and a J.D. from Columbia

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Law School. Mr. Shin s extensive experience in investment banking provides the Board of Directors with valuable insights of an experienced and diligent financial professional, as well as a diverse perspective.

Executive Officers Who Are Not Directors

Patrick F. Conroy has served as our Chief Financial Officer, Chief Compliance Officer and Corporate Secretary since 2010. Mr. Conroy has also served as the Chief Financial Officer since 2003, and the Chief Compliance Officer and Corporate Secretary since 2004, of TICC Capital Corp., a publicly traded business development company. Prior to joining TICC in December 2003, Mr. Conroy was a consultant on financial reporting and compliance matters, as well as an adjunct professor of accounting and finance at St. Thomas Aquinas College. Mr. Conroy has also served since 2005 as the Chief Financial Officer of T2 Advisers, LLC and the Chief Financial Officer of Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in leveraged corporate loans across a variety of industries globally, for which T2 Advisers, LLC serves as investment adviser. He is a certified public accountant. Mr. Conroy received a B.S. in Accounting, summa cum laude, from St. John s University and did graduate work at Bernard M. Baruch College of the City University of New York.

Director Independence

In accordance with rules of the NASDAQ Stock Market, our Board of Directors will annually determine each director s independence. We do not consider a director independent unless the Board of Directors has determined that he or she has no material relationship with us. We will monitor the relationships of our directors and officers through a questionnaire each director completes no less frequently than annually and updates periodically as information provided in the most recent questionnaire changes.

In order to evaluate the materiality of any such relationship, the Board of Directors uses the definition of director independence set forth in the rules promulgated by the NASDAQ Stock Market. Rule 5605(a)(2) provides that a director of an investment company shall be considered to be independent if he or she is not an interested person of Oxford Lane Capital, as defined in Section 2(a)(19) of the 1940 Act.

The Board of Directors has determined that each of the directors is independent and has no relationship with us, except as a director and stockholder, with the exception of Jonathan H. Cohen and Saul B. Rosenthal, as a result of their respective positions as Chief Executive Officer and President of Oxford Lane Capital and Oxford Lane Management, Oxford Lane Capital s investment adviser, and as the managing member and non-managing member, respectively, of BDC Partners, the administrator for Oxford Lane Capital.

Board Leadership Structure

Our Board of Directors monitors and performs an oversight role with respect to the business and affairs of Oxford Lane Capital, including with respect to investment practices and performance, compliance with regulatory requirements and the services, expenses and performance of service providers to Oxford Lane Capital. Among other things, our Board of Directors approves the appointment of our investment adviser and officers, reviews and monitors the services and activities performed by our investment adviser and executive officers and approves the engagement, and reviews the performance of, our independent registered public accounting firm.

Under our bylaws, our Board of Directors may designate a Chairman to preside over the meetings of the Board of Directors and meetings of the stockholders and to perform such other duties as may be assigned to him by the Board of Directors. We do not have a fixed policy as to whether the Chairman of the Board of Directors should be an independent director and believe that we should maintain the flexibility to select the Chairman and reorganize the leadership structure, from time to time, based on the criteria that is in the best interests of Oxford Lane Capital and its stockholders at such times.

Presently, Mr. Ashenfelter serves as the Chairman of our Board of Directors. Mr. Ashenfelter is not an interested person of Oxford Lane Capital as defined in Section 2(a)(19) of the 1940 Act. We believe that Mr. Ashenfelter s extensive corporate legal experience, particularly in connection with investment companies, qualify him to serve as the Chairman of our Board of Directors. We believe that we are best served through this existing leadership structure, as Mr. Ashenfelter s independence from our investment adviser eliminates any perceived conflicts of interest and ensures that our management team acts in the best interests of our stockholders.

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Our corporate governance policies include regular meetings of the independent directors in executive session without the presence of interested directors and management, the establishment of Audit and Valuation Committees comprised solely of independent directors and the appointment of a Chief Compliance Officer, with whom the independent directors meet regularly without the presence of interested directors and other members of management, for administering our compliance policies and procedures.

We recognize that different board leadership structures are appropriate for companies in different situations. We intend to re-examine our corporate governance policies on an ongoing basis to ensure that they continue to meet our needs.

Board s Role In Risk Oversight

Our Board of Directors performs its risk oversight function primarily through (i) its two standing committees, which report to the entire Board of Directors and are comprised solely of independent directors, and (ii) active monitoring of our Chief Compliance Officer and our compliance policies and procedures.

As described below in more detail under Committees of the Board of Directors, the Audit Committee and the Valuation Committee assist the Board of Directors in fulfilling its risk oversight responsibilities. The Audit Committee s risk oversight responsibilities include overseeing our accounting and financial reporting processes, our systems of internal controls regarding finance and accounting, and audits of our financial statements. The Valuation Committee s risk oversight responsibilities include establishing guidelines and making recommendations to our Board of Directors regarding the valuation of our loans and investments. Moreover, the independent directors of our Board of Directors are responsible for selecting, researching and nominating directors for election by our stockholders, developing and recommending to the Board of Directors a set of corporate governance principles and overseeing the evaluation of the Board of Directors and our management.

Our Board of Directors also performs its risk oversight responsibilities with the assistance of our Chief Compliance Officer. The Board of Directors annually reviews a written report from the Chief Compliance Officer discussing the adequacy and effectiveness of the compliance policies and procedures of Oxford Lane Capital and its service providers. The Chief Compliance Officer s annual report addresses at a minimum (i) the operation of the compliance policies and procedures of Oxford Lane Capital and its service providers since the last report; (ii) any material changes to such policies and procedures since the last report; (iii) any recommendations for material changes to such policies and procedures as a result of the Chief Compliance Officer s annual review; and (iv) any compliance matter that has occurred since the date of the last report about which the Board of Directors would reasonably need to know to oversee our compliance activities and risks. In addition, the Chief Compliance Officer meets separately in executive session with the independent directors at least quarterly.

We believe that our Board of Directors role in risk oversight is effective and appropriate given the extensive regulation to which we are already subject as an investment company. As a registered closed-end management investment company, we are required to comply with certain regulatory requirements that control the levels of risk in our business and operations. For example, our ability to incur indebtedness is limited such that our asset coverage must equal at least 300% immediately after each time we incur indebtedness and we are limited in our ability to invest in any CLO vehicle in which one of our affiliates currently has an investment.

We recognize that different board roles in risk oversight are appropriate for companies in different situations. We re-examine the manner in which the Board of Directors administers its oversight function on an ongoing basis to ensure that they continue to meet our needs.

Committees of the Board of Directors

Our Board of Directors has established an Audit Committee and a Valuation Committee. We require each director to make a diligent effort to attend all Board and committee meetings, as well as each annual meeting of stockholders.

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Audit Committee

The Audit Committee operates pursuant to a charter approved by our Board of Directors, a copy of which is available on our website at *http://www.[   ].com*. The charter sets forth the responsibilities of the Audit Committee. The Audit Committee s responsibilities include recommending the selection of our independent registered public accounting firm, reviewing with such independent registered public accounting firm the planning, scope and results of their audit of our financial statements, pre-approving the fees for services performed, reviewing with the independent registered public accounting firm the adequacy of internal control systems, reviewing our annual financial statements and periodic filings, and receiving our audit reports and financial statements. The Audit Committee is presently composed of three persons: Messrs. Shin, Ashenfelter and Reardon, all of whom are considered independent under the rules promulgated by the NASDAQ Stock Market. Our Board of Directors has determined that Mr. Shin is an audit committee financial expert as that term is defined under Item 407 of Regulation S-K of the Securities Exchange Act of 1934. Mr. Shin meets the current independence and experience requirements of Rule 10A-3 of the Exchange Act and, in addition, is not an interested person of Oxford Lane Capital as defined in Section 2(a)(19) of the 1940 Act. Mr. Shin currently serves as Chairman of the Audit Committee.

Valuation Committee

The Valuation Committee will establish guidelines and makes recommendations to our Board of Directors regarding the valuation of investments. Our portfolio investments will generally not be publicly traded securities. As a result, there will not be a readily determinable market value for these securities. Thus, as required by the 1940 Act for such securities, we will value these securities at fair value as determined in good faith by our Board of Directors based upon the recommendation of the Valuation Committee.

Our Board of Directors will determine the value of our investment portfolio each quarter, after consideration of our Valuation Committee s recommendation of fair value. Oxford Lane Management will compile relevant information, including a financial summary, covenant compliance review and recent trading activity in the security, if known. All available information, including non-binding indicative bids which may not be considered reliable, will be presented to the Valuation Committee to consider in making its recommendation of fair value to the Board of Directors. In some instances, there may be limited trading activity in a security even though the market for the security is considered not active. In such cases the Valuation Committee will consider the number of trades, the size and timing of each trade, and other circumstances around such trades, to the extent such information is available, in making its recommendation of fair value to the Board of Directors. We may elect to engage third-party valuation firms to provide assistance to our Valuation Committee and Board of Directors in valuing certain of our investments. The Valuation Committee will evaluate the impact of such additional information, and factor it into its consideration of fair value.

The Valuation Committee is presently composed of Messrs. Shin, Ashenfelter and Reardon. Mr. Ashenfelter currently serves as Chairman of the Valuation Committee.

Nominating and Corporate Governance Procedures

We do not have a Nominating and Corporate Governance Committee. A majority of the independent directors of the Board of Directors, in accordance with the NASDAQ Global Select Market listing standards, recommends candidates for election as directors. We do not currently have a charter or written policy with regard to the nomination process or stockholder recommendations. The absence of such a policy does not mean, however, that a stockholder recommendation would not be considered if one is received.

Our independent directors will consider qualified director nominees recommended by stockholders when such recommendations are submitted in accordance with our bylaws and any applicable law, rule or regulation regarding director nominations. When submitting a nomination for consideration, a stockholder must provide certain information that would be required under applicable SEC rules, including the following minimum information for each director nominee: full name, age and address; principal occupation during the past five years; current directorships on publicly held companies and investment companies; number of shares of our common stock owned, if any; and, a written consent of the individual to stand for election if nominated by our Board of Directors and to serve if elected by the stockholders.

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In evaluating director nominees, our independence directors consider the following factors:

- the appropriate size and composition of our Board of Directors;
- whether or not the person is an interested person of Oxford Lane Capital as defined in Section 2(a)(19) of the 1940 Act;
- the needs of Oxford Lane Capital with respect to the particular talents and experience of its directors;
- the knowledge, skills and experience of nominees in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board of Directors;
- high character and integrity;
- familiarity with national and international business matters;
- experience with accounting rules and practices;
- appreciation of the relationship of our business to the changing needs of society;
- the desire to balance the considerable benefit of continuity with the periodic injection of the fresh perspective provided by new members; and
- all applicable laws, rules, regulations, and listing standards.

The Board of Directors goal is to assemble a Board of Directors that brings to Oxford Lane Capital a variety of perspectives and skills derived from high quality business and professional experience.

Other than the foregoing there are no stated minimum criteria for director nominees, although our independent directors may also consider such other factors as they may deem are in the best interests of Oxford Lane Capital and its stockholders. The Board of Directors also believes it appropriate for certain key members of our management to participate as members of the Board of Directors.

The independent members of the Board of Directors identify nominees by first evaluating the current members of the Board of Directors willing to continue in service. Current members of the Board of Directors with skills and experience that are relevant to our business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. If any member of the Board of Directors does not wish to continue in service or if the Board of Directors decides not to re-nominate a member for re-election, the independent members of the Board of Directors identify the desired skills and experience of a new nominee in light of the criteria above. The entire Board of Directors is polled for suggestions as to individuals meeting the aforementioned criteria. Research may also be performed to identify qualified individuals. To date, we have not engaged third parties to identify or evaluate or assist in identifying potential nominees although each reserves the right in the future to retain a third party search firm, if necessary.

The Board of Directors has not adopted a formal policy with regard to the consideration of diversity in identifying director nominees. In determining whether to recommend a director nominee, the Board of Directors considers and discusses diversity, among other factors, with a view toward the needs of the board of directors as a whole. The Board of Directors generally conceptualizes diversity expansively to include, without limitation, concepts such as race, gender, national origin, differences of viewpoint, professional experience, education, skill and other qualities that contribute to the Board of Directors, when identifying and recommending director nominees. The Board of Directors believes that the inclusion of diversity as one of many factors considered in selecting director nominees is consistent with the Board of Directors goal of creating a Board of Directors that best serves the needs of Oxford Lane Capital and the interests of its shareholders.

Communication with the Board of Directors

Stockholders with questions about Oxford Lane Capital are encouraged to contact Oxford Lane Capital Corp. s Investor Relations Department. However, if stockholders believe that their questions have not been addressed, they may communicate with our Board of Directors by sending their communications to Oxford Lane Capital Corp., c/o Patrick F. Conroy, Corporate Secretary, 8 Sound Shore Drive, Suite 255, Greenwich,

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Connecticut 06830. All stockholder communications received in this manner will be delivered to one or more members of the Board of Directors, as appropriate.

Code of Ethics

We have adopted a code of ethics which applies to, among others, our senior officers, including our Chief Executive Officer and Chief Financial Officer, as well as every officer, director and employee of Oxford Lane Capital. Our code of ethics can be accessed via its website at *http://www.[   ]. com*.

Compensation of Directors

The independent directors will receive an annual fee of $35,000. In addition, the independent directors will receive $2,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each Board of Directors meeting, $1,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each Valuation Committee meeting and $1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each Audit Committee meeting. The Chairman of the Audit Committee will also receive an additional annual fee of $5,000. No compensation will be paid to directors who are interested persons of Oxford Lane Capital as defined in the 1940 Act.

Compensation of Chief Executive Officer and Other Executive Officers

We do not have a compensation committee because our executive officers will not receive any direct compensation from Oxford Lane Capital. Mr. Cohen, our Chief Executive Officer, and Mr. Rosenthal, our President, through their ownership interest in BDC Partners, the managing member of Oxford Lane Management, are entitled to a portion of any profits earned by Oxford Lane Management, which includes any fees payable to Oxford Lane Management under the terms of the Investment Advisory Agreement, less expenses incurred by Oxford Lane Management in performing its services under the Investment Advisory Agreement. Messrs. Cohen and Rosenthal will not receive any additional compensation from Oxford Lane Management in connection with the management of our portfolio.

The compensation of Mr. Conroy, our Chief Financial Officer, Chief Compliance Officer and Corporate Secretary, is paid by our administrator, BDC Partners, subject to reimbursement by us of an allocable portion of such compensation for services rendered by Mr. Conroy to Oxford Lane Capital.

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PORTFOLIO MANAGEMENT

The management of our investment portfolio is the responsibility of Oxford Lane Management, and its investment committee, which currently consists of Jonathan H. Cohen, our Chief Executive Officer, and Saul B. Rosenthal, our President. Our investment adviser s investment committee must approve each new investment that we make. The members of our investment adviser s investment committee are not employed by us, and receive no compensation from us in connection with their portfolio management activities. Messrs. Cohen and Rosenthal, through their ownership of BDC Partners, the managing member of Oxford Lane Management, are entitled to a portion of any investment advisory fees paid by Oxford Lane Capital to Oxford Lane Management.

Because Oxford Lane Management currently provides portfolio management services only to us, we do not believe there are any conflicts of interests with respect to Oxford Lane Management s management of our portfolio on the one hand, and the management of other accounts or investment vehicles by Oxford Lane Management on the other. However, Mr. Cohen currently serves as Chief Executive Officer and Mr. Rosenthal currently serves as President and Chief Operating Officer of TICC Capital Corp., a public-traded business development company that invests principally in the debt of U.S.-based technology-related companies, and its investment adviser, TICC Management. In addition, Messrs. Cohen and Rosenthal currently serve as Chief Executive Officer and President, respectively, for T2 Advisers, LLC, an investment adviser to Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in leveraged corporate loans across a variety of industries globally. T2 Advisers, LLC also manages T2 Income Fund CLO I Ltd., a CLO vehicle established by Greenwich Loan Income Fund Limited. BDC Partners is the managing member, and Royce & Associates, LLC (Royce & Associates) is a non-managing member, of TICC Management, LLC. As a result, Messrs. Cohen and Rosenthal may be subject to certain conflicts of interests with respect to their management of our portfolio on the one hand, and their respective obligations to manage TICC Capital Corp., Greenwich Loan Income Fund Limited and T2 Income Fund CLO I Ltd. on the other hand.

Set forth below is additional information regarding the additional entities currently managed by Messrs. Cohen and Rosenthal:

Name	Entity	Investment Focus	Gross Assets(1)
TICC Capital Corp.	Business development company	Principally debt investments in U.S. technology-related companies	$253 million
Greenwich Loan Income Fund Limited(2)	Guernsey-based fund	Principally debt investments across a variety of industries globally	$301 million

(1) Gross assets are calculated as of March 31, 2010, and are rounded to the nearest million.
(2) Includes the gross assets held by T2 Income Fund CLO I Ltd.

Investment Personnel

Our investment adviser is led by Jonathan H. Cohen, our Chief Executive Officer, and Saul B. Rosenthal, our President. Messrs. Cohen and Rosenthal are assisted by Darryl M. Monasebian and Hari Srinivasan, who serve as Senior Managing Director and Managing Director, respectively, for Oxford Lane Management. We consider Messrs.

Cohen, Rosenthal, Monasebian and Srinivasan to be Oxford Lane Management s senior investment team. We consider Messrs. Cohen and Rosenthal, who are the members of our investment adviser s investment committee, to be our portfolio managers.

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The table below shows the dollar range of shares of our common stock to be beneficially owned by each of our portfolio managers subsequent to completion of this offering.

Name of Portfolio Manager	Dollar Range of Equity Securities in Oxford Lane Capital[(1)]
Jonathan H. Cohen	[ ]
Saul B. Rosenthal	[ ]

(1) Dollar ranges are as follows: None, $1 $10,000, $10,001 $50,000, $50,001 $100,000, $100,001 $500,000; $500,001 $1,000,000 or Over $1,000,000.

The following information pertains to the members of Oxford Lane Management s investment team who are not executive officers of Oxford Lane Capital:

Darryl M. Monasebian. Mr. Monasebian is the senior managing director and head of portfolio management of Oxford Lane Management, and also holds those same positions at TICC Management, LLC, the investment adviser to TICC Capital. Mr. Monasebian has also served since 2005 as the senior managing director and head of portfolio management of T2 Advisers, LLC, the investment adviser to Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in leveraged corporate loans across a variety of industries globally. Prior to joining TICC Management, Mr. Monasebian was a director in the Merchant Banking Group at BNP Paribas, and prior to that was a director at Swiss Bank Corporation and a senior account officer at Citibank. He began his business career at Metropolitan Life Insurance Company as an investment analyst in the Corporate Investments Department. Mr. Monasebian received a B.S. in Management Science/Operations Research from Case Western Reserve University and a Masters of Business Administration from Boston University s Graduate School of Management.

Hari Srinivasan. Mr. Srinivasan is a managing director and portfolio manager of Oxford Lane Management, and also holds those same positions at TICC Management, LLC, the investment adviser to TICC Capital Corp., and at T2 Advisers, LLC, the investment adviser to Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in leveraged corporate loans across a variety of industries globally. Previously, Mr. Srinivasan was a credit manager at Lucent Technologies from 2002 to 2005, focusing on restructuring and monetization of distressed assets in Lucent s vendor finance portfolio, and credit analysis of Lucent s telecom customers. Prior to that, Mr. Srinivasan was an analyst in the fixed income group at Lehman Brothers from 1998 to 2002. Mr. Srinivasan received a B.S. in Computer Science from Poona University, India and a Masters of Business Administration from New York University s Stern School of Business.

Debdeep Maji. Mr. Maji is a senior associate of Oxford Lane Management, TICC Management, LLC, the advisor of TICC Capital Corp., and T2 Advisers, LLC, the investment adviser to Greenwich Loan Income Fund Limited. Mr. Maji graduated from the Jerome Fisher Program in Management and Technology at the University of Pennsylvania where he received a Bachelor of Science degree in Economics from the Wharton School (and was designated a Joseph Wharton Scholar) and a Bachelor of Applied Science from the School of Engineering.

Joseph Kupka. Mr. Kupka is an analyst of Oxford Lane Management, TICC Management, LLC, the advisor of TICC Capital Corp. and T2 Advisers, LLC, the investment adviser to Greenwich Loan Income Fund Limited. Previously, he worked as a risk analyst for First Equity Card Corporation. Mr. Kupka received a B.S. in Mechanical Engineering from the University of Pennsylvania.

Compensation

None of Oxford Lane Management s investment personnel receive any direct compensation from us in connection with the management of our portfolio. Messrs. Cohen and Rosenthal, through their ownership interest in BDC Partners, the managing member of Oxford Lane Management, are entitled to a portion of any profits earned by Oxford Lane Management, which includes any fees payable to Oxford Lane Management under the terms of the Investment Advisory Agreement, less expenses incurred by Oxford Lane Management in performing its services under the Investment Advisory Agreement. Messrs. Cohen and Rosenthal do not receive any additional compensation from Oxford Lane Management in connection with the management of our portfolio. The compensation paid by Oxford Lane Management to its other investment personnel includes: (i) annual base salary; (ii) annual cash bonus; (iii) portfolio-based performance award; and (iv) individual performance award and/or individual performance bonus.

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INVESTMENT ADVISORY AGREEMENT

Management Services

Oxford Lane Management serves as our investment adviser. Oxford Lane Management is an investment adviser that intends to register as an investment adviser under the Advisers Act prior to pricing of this offering. Subject to the overall supervision of our Board of Directors, our investment adviser manages the day-to-day operations of, and provides investment advisory and management services to, Oxford Lane Capital. Under the terms of our Investment Advisory Agreement, Oxford Lane Management:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective investments);
closes and monitors the investments we make; and
provides us with other investment advisory, research and related services as we may from time to time require.

Oxford Lane Management s services under the Investment Advisory Agreement are not exclusive, and both it and its members, officers and employees are free to furnish similar services to other entities so long as its services to us are not impaired.

Management Fee

Pursuant to the Investment Advisory Agreement, we have agreed to pay Oxford Lane Management a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee.

The base management fee is calculated at an annual rate of 2.00% of our gross assets. For services rendered under the Investment Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter will be appropriately pro-rated.

The incentive fee is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from an investment) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement to BDC Partners, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 1.75% per quarter (7.00% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2.00% base management fee. We pay Oxford Lane Management an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle of 1.75%;

100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 2.1875% in any calendar quarter (8.75% annualized). We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle but is less than 2.1875%) as the catch-up. The

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catch-up is meant to provide our investment adviser with 20% of our pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 2.1875% in any calendar quarter; and

20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to Oxford Lane Management (once the hurdle is reached and the catch-up is achieved, 20% of all pre-incentive fee investment income thereafter is allocated to Oxford Lane Management).

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

Quarterly Incentive Fee Based on Net Investment Income

Pre-incentive fee net investment income

(expressed as a percentage of the value of net assets)

Percentage of pre-incentive fee net investment income allocated to the Oxford Lane Management

These calculations are appropriately pro-rated for any period of less than three months and adjusted for any share issuances or repurchases during the relevant quarter. You should be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase of the amount of incentive fees payable to our investment adviser with respect to pre-incentive fee net investment income.

No incentive fee is payable to our investment adviser on realized capital gains.

Examples of Quarterly Incentive Fee Calculation

Alternative 1:

Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate(1) = 1.75%

Management fee(2) = 0.5%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

Pre-incentive fee net investment income

(investment income   (management fee + other expenses)) = 0.55%

Pre-incentive net investment income does not exceed hurdle rate, therefore there is no incentive fee.

Alternative 2:

Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle rate[(1)] = 1.75%

Management fee[(2)] = 0.5%

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Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

Pre-incentive fee net investment income

(investment income   (management fee + other expenses)) = 2.00%

Incentive fee = 100% × pre-incentive fee net investment income, subject to the   catch-up(4)

= 100% × (2.0%   1.75%)

= 0.25%

Alternative 3:

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.00%

Hurdle rate(1) = 1.75%

Management fee(2) = 0.5%

Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.20%

Pre-incentive fee net investment income

(investment income   (management fee + other expenses)) = 2.3%

Incentive fee = 20% × pre-incentive fee net investment income, subject to   catch-up(4)

Incentive fee = 100% ×   catch-up   + (20% × (pre-incentive fee net investment income   2.1875%))

Catch-up = 2.1875%   1.75%

= 0.4375%

Incentive fee = (100% × 0.4375%) + (20% × (2.3%   2.1875%))

= 0.4375% + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

Payment of Our Expenses

The investment team of our investment adviser and their respective staffs, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Oxford Lane Management. We bear all other costs and expenses of our operations and transactions, including (without limitation):

the cost of our organization and this offering;
the cost of calculating our net asset value, including the cost of any third-party valuation services;
the cost of effecting sales and repurchases of our shares and other securities;
interest payable on debt, if any, to finance our investments;
fees payable to third parties relating to, or associated with, making investments, including legal fees

(1) Represents 7% annualized hurdle rate.
(2) Represents 2.00% annualized management fee.
(3) Excludes organizational and offering expenses.
(4) The catch-up provision is intended to provide the investment adviser with an incentive fee of 20% on all of Oxford Lane Capital s pre-incentive fee net investment income as if a hurdle rate did not apply when its net investment income exceeds 2.1875% in any calendar quarter.

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and expenses and fees and expenses associated with performing due diligence reviews of prospective investments and advisory fees as well as expenses associated with such activities;

the costs associated with protecting our interests in our investments, including legal fees;

transfer agent and custodial fees;

fees and expenses associated with marketing and investor relations efforts;

federal and state registration fees, any stock exchange listing fees;

federal, state and local taxes;

independent directors fees and expenses;

brokerage commissions;

fidelity bond, directors and officers errors and omissions liability insurance and other insurance premiums;

direct costs and expenses of administration, including printing, mailing, long distance telephone and staff;

fees and expenses associated with independent audits and outside legal costs;

costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and

all other expenses incurred by either BDC Partners or us in connection with administering our business, including payments under the Administration Agreement that will be based upon our allocable portion of overhead and other expenses incurred by BDC Partners in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the costs of compensation and related expenses of our Chief Compliance Officer, our Chief Financial Officer and any administrative support staff.

Duration and Termination

The Investment Advisory Agreement was initially approved by the Board of Directors of Oxford Lane Capital on [ ], 2010. Unless earlier terminated as described below, the Investment Advisory Agreement will remain in effect for a period of two years from the date it was approved by our Board of Directors and will remain in effect from year to year thereafter if approved annually by our Board of Directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not parties to such agreement or who are not interested persons of any such party, as such term is defined in Section 2(a)(19) of the 1940 Act. The Investment Advisory Agreement will automatically terminate in the event of its assignment. The Investment Advisory Agreement may also be terminated by either party without penalty upon not more than 60 days written notice to the other party. See Risk Factors Risks Relating to Our Business and Structure Our investment adviser can resign on 60 days notice.

Indemnification

The Investment Advisory Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Oxford Lane Management and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Oxford Lane Capital for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of Oxford Lane Management s services under the Investment Advisory Agreement or otherwise as an investment adviser of Oxford Lane Capital.

Organization of the Investment Adviser

Oxford Lane Management is a Connecticut limited liability company that intends to register as an investment adviser under the Advisers Act prior to pricing of this offering. BDC Partners, a Delaware limited

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liability company, is its managing member and provides Oxford Lane Management with all personnel necessary to manage our day-to-day operations and provide the services under the Investment Advisory Agreement. The principal address of Oxford Lane Management and of BDC Partners is 8 Sound Shore Drive, Suite 255, Greenwich, Connecticut 06830.

Charles M. Royce is the non-managing member of Oxford Lane Management. Mr. Royce is the President and Chief Investment Officer of Royce & Associates. Mr. Royce has served as Chairman of the Board of Directors of TICC Capital Corp. since 2003. Mr. Royce became President and Chief Investment Officer in 1972, and a member of the Board of Managers in 2001, of Royce & Associates. He also manages or co-manages ten of Royce & Associates open-and closed-end registered funds. Mr. Royce serves on the Board of Directors of The Royce Funds. Mr. Royce, as a non-managing member of Oxford Lane Management, does not take part in the management or participate in the operations of Oxford Lane Management; however, Mr. Royce is available to Oxford Lane Management to provide certain consulting services without compensation. Royce & Associates is a wholly owned subsidiary of Legg Mason, Inc.

Board Approval of the Investment Advisory Agreement

A discussion regarding the basis for our board of director s approval of our Investment Advisory Agreement will be included in our first annual or semi-annual report filed subsequent to completion of this offering.

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ADMINISTRATION AGREEMENT

BDC Partners, a Delaware limited liability company, serves as our administrator. The principal executive offices of BDC Partners are located at 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830. Pursuant to an Administration Agreement, BDC Partners furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, BDC Partners also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders. In addition, BDC Partners assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of BDC Partners overhead in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions and our allocable portion of the compensation of our Chief Financial Officer and Chief Compliance Officer and our allocable portion of the compensation of any administrative support staff. The Administration Agreement may be terminated by either party without penalty upon 60 days written notice to the other party.

BDC Partners will also provide administrative services to our investment adviser, Oxford Lane Management. As a result, Oxford Lane Management will also reimburse BDC Partners for its allocable portion of BDC Partners overhead, including rent, the fees and expenses associated with performing compliance functions for Oxford Lane Management, and its allocable portion of the compensation of any administrative support staff.

The Administration Agreement provides that, absent willful misfeasance, bad faith or negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, BDC Partners and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Oxford Lane Capital for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of BDC Partners services under the Administration Agreement or otherwise as administrator for Oxford Lane Capital.

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CERTAIN RELATIONSHIPS AND TRANSACTIONS

We have entered into the Investment Advisory Agreement with Oxford Lane Management. Oxford Lane Management is controlled by BDC Partners, its managing member. In addition to BDC Partners, Oxford Lane Management is owned in part by Charles M. Royce as a non-managing member. BDC Partners, as the managing member of Oxford Lane Management, manages the business and internal affairs of Oxford Lane Management. In addition, BDC Partners provides us with office facilities and administrative services pursuant to the Administration Agreement. Jonathan H. Cohen, our Chief Executive Officer, as well as a director, is the managing member of and controls BDC Partners. Saul B. Rosenthal, our President, is also the President and Chief Operating Officer of TICC Management and a member of BDC Partners. BDC Partners is also the managing member of Oxford Gate Capital, LLC, a private fund in which Messrs. Cohen, Rosenthal and Conroy, along with certain investment and administrative personnel of TICC Management, are invested.

Charles M. Royce is President and Chief Investment Officer of Royce & Associates. Mr. Royce, as a non-managing member of Oxford Lane Management, does not take part in the management or participate in the operations of Oxford Lane Management; however, Mr. Royce is available to Oxford Lane Management to provide certain consulting services without compensation. Royce & Associates is a wholly owned subsidiary of Legg Mason, Inc.

In addition, Mr. Cohen currently serves as Chief Executive Officer and Mr. Rosenthal currently serves as President and Chief Operating Officer of TICC Capital Corp., a public-traded business development company that invests principally in the debt of U.S.-based technology-related companies, and its investment adviser, TICC Management. Messrs. Cohen and Rosenthal also currently serve as Chief Executive Officer, and President, respectively, for T2 Advisers, LLC, an investment adviser to Greenwich Loan Income Fund Limited, a Guernsey fund that invests primarily in leveraged corporate loans across a variety of industries globally. T2 Advisers, LLC also manages T2 Income Fund CLO I Ltd., a CLO vehicle established by Greenwich Loan Income Fund Limited. BDC Partners is the managing member of TICC Management, LLC and T2 Advisers, LLC, respectively. As a result, Messrs. Cohen and Rosenthal may be subject to certain conflicts of interests with respect to their management of our portfolio on the one hand, and their respective obligations to manage TICC Capital Corp., Greenwich Loan Income Fund Limited,T2 Income Fund CLO I Ltd. and Oxford Gate Capital, LLC on the other hand. In addition, Patrick F. Conroy, our Chief Financial Officer, Chief Compliance Officer and Corporate Secretary, currently serves in similar capacities for TICC Capital Corp. Mr. Conroy also currently serves as the Chief Financial Officer of Greenwich Loan Income Fund Limited and as the Chief Financial Officer, Chief Compliance Officer and Treasurer of T2 Advisers, LLC, TICC Management and BDC Partners.

We, TICC Capital Corp., Greenwich Loan Income Fund Limited and Oxford Gate Capital, LLC have adopted a written policy with respect to the allocation of investment opportunities in view of the potential conflicts of interest raised by the relationships described above.

In the ordinary course of business, we may enter into transactions with portfolio companies that may be considered related party transactions. In order to ensure that we do not engage in any prohibited transactions with any persons affiliated with us, we have implemented certain policies and procedures whereby our executive officers screen each of our transactions for any possible affiliations between the proposed portfolio investment, us, companies controlled by us and our employees and directors. We will not enter into any agreements unless and until we are satisfied that doing so will not raise concerns under the 1940 Act or, if such concerns exist, we have taken appropriate actions to seek board review and approval or exemptive relief for such transaction. Our Board of Directors reviews these procedures on an annual basis.

We have also adopted a Code of Ethics which applies to, among others, our senior officers, including our Chief Executive Officer and Chief Financial Officer, as well as every officer, director and employee of Oxford Lane Capital. Our Code of Ethics requires that all employees and directors avoid any conflict, or the appearance of a conflict, between an individual s personal interests and the interests of Oxford Lane Capital. Pursuant to our Code of Ethics, each employee and director must disclose any conflicts of interest, or actions or relationships that might give rise to a conflict, to our Chief Compliance Officer. Our Audit Committee is charged with approving any waivers under our Code of Ethics. As required by the NASDAQ Stock Market corporate governance listing standards, the Audit Committee of our Board of Directors is also required to review and approve any transactions with related parties (as such term is defined in Item 404 of Regulation S-K).

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CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

Immediately prior to the completion of this offering, there will be 7500 shares of common stock outstanding and three stockholders of record. At that time, we will have no other shares of capital stock outstanding. The following table sets forth certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5% or more of our outstanding common stock and all officers and directors, as a group.

Name	Type of ownership	Immediately prior to this offering		Immediately after this offering[1]	
		Shares owned	Percentage	Shares owned	Percentage
Charles M. Royce	Record and beneficial	3750	50.0 %		*
Jonathan Cohen	Record and beneficial	1875	25.0 %		
Saul Rosenthal	Record and beneficial	1875	25.0 %		
All officers and directors as a group (7 persons)[2]	Beneficial	7500	50.0 %	[ ]	[ ]%

* Represents less than 1%

(1) Assumes issuance of [ ] shares offered hereby, and the purchase in full by the officers and directors, collectively, of the [ ] shares reserved for issuance pursuant to the directed share program. Does not reflect shares of common stock reserved for issuance upon exercise of the underwriters over-allotment option.

(2) The address for all officers and directors is c/o Oxford Lane Capital Corp., 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830.

The following table sets forth the dollar range of our equity securities beneficially owned by each of our directors immediately after this offering.

Name of Director	Dollar Range of Equity Securities in Oxford Lane Capital[1]
Interested Directors	
Jonathan H. Cohen	[ ]
Saul Rosenthal	[ ]
Independent Directors	
Mark J. Ashenfelter	[ ]
John Reardon	[ ]
David S. Shin	[ ]

(1) Dollar ranges are as follows: None, $1 $10,000, $10,001 $50,000, $50,001 $100,000, or Over $100,000.

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REGULATION AS A REGISTERED CLOSED-END MANAGEMENT INVESTMENT COMPANY

General

We are a newly organized, non-diversified closed-end management investment company that has registered as an investment company under the 1940 Act. As a registered closed-end investment company, we are subject to regulation under the 1940 Act. Under the 1940 Act, unless authorized by vote of a majority of the outstanding voting securities, we may not:

change our classification to an open-end management investment company;

except in each case in accordance with our policies with respect thereto set forth in this prospectus, borrow money, issue senior securities, underwrite securities issued by other persons, purchase or sell real estate or commodities or make loans to other persons;

deviate from any policy in respect of concentration of investments in any particular industry or group of industries as recited in this prospectus, deviate from any investment policy which is changeable only if authorized by shareholder vote under the 1940 Act, or deviate from any fundamental policy recited in its registration statement in accordance with the requirements of the 1940 Act; or

change the nature of our business so as to cease to be an investment company.

A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (a) 67% or more of such company s voting securities present at a meeting if more than 50% of the outstanding voting securities of such company are present or represented by proxy, or (b) more than 50% of the outstanding voting securities of such company.

As with other companies regulated by the 1940 Act, a registered closed-end management investment company must adhere to certain substantive regulatory requirements. A majority of our directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we will be required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the closed-end management investment company. Furthermore, as a registered closed-end management investment company, we will be prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person s office. We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, prior approval by the SEC.

As a registered closed-end management investment company, we will generally be required to meet an asset coverage ratio, defined under the 1940 Act as the ratio of our gross assets (less all liabilities and indebtedness not represented by senior securities) to our outstanding senior securities, of at least 300% after each issuance of senior securities. We are also prohibited from issuing or selling any senior security if, immediately after such issuance, we would have outstanding more than (i) one class of senior security representing indebtedness, exclusive of any promissory notes or other evidences of indebtedness issued in consideration of any loan, extension, or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed, or (ii) one class of senior security which is stock, except that in each case any such class of indebtedness or stock may be issued in one or more series.

We will generally not be able to issue and sell our common stock at a price below net asset value per share. See Risk Factors Risks Relating to Our Business and Structure Regulations governing our operation as a closed-end investment company affect our ability to, and the way in which we, raise additional capital. We may, however, sell our common stock, or at a price below the then-current net asset value of our common stock if our Board of Directors determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In addition, we may generally issue new shares of our common stock at a price below net asset value in rights offerings to existing stockholders, in payment of dividends and in certain other limited circumstances.

As a registered closed-end management investment company, we will generally be limited in our ability to invest in any portfolio company in which our investment adviser or any of its affiliates currently has an investment or to make any co-investments with our investment adviser or its affiliates without an exemptive order from the SEC, subject to certain exceptions.

Although we do not presently expect to do so, we are authorized to borrow funds up to an amount not to exceed the limitations of the 1940 Act to make investments. We may also borrow funds, consistent with the foregoing limitations of the 1940 Act, in order to make the distributions required to maintain our status as a RIC under Subchapter M of the Code.

We will be periodically examined by the SEC for compliance with the 1940 Act.

As a registered closed-end management investment company, we will be subject to certain risks and uncertainties. See Risk Factors Risks Relating to Our Business and Structure.

Temporary Investments

Pending investment in portfolio securities consistent with our investment objective and strategies described in this prospectus, our investments may consist of cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments. Typically, we will invest in U.S. Treasury bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our gross assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests in order to qualify as a RIC for federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities

We are permitted, under specified conditions, to issue one class of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 300% immediately after each such issuance. We are also permitted to issue promissory notes or other evidences of indebtedness in consideration of a loan, extension, or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed, provided that our asset coverage is at least equal to 300% immediately thereafter. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our gross assets for temporary or emergency purposes without regard to asset coverage. For a discussion of the risks associated with leverage, see Risk Factors Risks Relating to Our Business and Structure We may borrow money, which would magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Code of Ethics

We and Oxford Lane Management have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act and Rule 204A-1 under the Advisers Act, respectively, that establishes procedures for personal investments and restricts certain transactions by our personnel. Our codes of ethics generally do not permit investments by our employees in securities that may be purchased or held by us. You may read and copy these codes of ethics at the SEC s Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 551-8090. In addition, each code of ethics is attached as an exhibit to the registration statement of which this prospectus is a part, and is available on the EDGAR Database on the SEC s Internet site at *http://www.sec.gov*. You may also obtain copies of the codes of ethics, after paying a duplicating fee, by electronic request at the following Email address: publicinfo@sec.gov, or by writing the SEC s Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

Compliance Policies and Procedures

We and our investment adviser have adopted and implemented written policies and procedures reasonably designed to detect and prevent violation of the federal securities laws and are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation and designate a Chief Compliance Officer to be responsible for administering the policies and procedures. Patrick F. Conroy currently serves as our Chief Compliance Officer.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. For example:

pursuant to Rule 30a-2 of the 1940 Act, our chief executive officer and chief financial officer must certify the accuracy of the financial statements contained in our periodic reports;
pursuant to Item 11 of Form N-CSR and Item 2 Form N-Q, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
pursuant to Item 11 of Form N-CSR and Item 2 Form N-Q, our periodic reports must disclose whether there were significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

Fundamental Investment Policies

The restrictions identified as fundamental below, along with our investment objective, are our only fundamental policies. Fundamental policies may not be changed without the approval of the holders of a majority of our outstanding voting securities, as defined in the 1940 Act. The percentage restrictions set forth below, apply at the time a transaction is effected, and a subsequent change in a percentage resulting from market fluctuations or any cause will not require us to dispose of portfolio securities or to take other action to satisfy the percentage restriction.

As a matter of fundamental policy, we will not: (1) act as an underwriter of securities of other issuers (except to the extent that we may be deemed an underwriter of securities we purchase that must be registered under the Securities Act before they may be offered or sold to the public); (2) purchase or sell real estate or interests in real estate or real estate investment trusts (except that we may (A) purchase and sell real estate or interests in real estate in connection with the orderly liquidation of investments, or in connection with foreclosure on collateral, or (B) own the securities of companies that are in the business of buying, selling or developing real estate); (3) sell securities short (except with regard to managing the risks associated with publicly-traded securities we may hold in our portfolio); (4) purchase securities on margin (except to the extent that we may purchase securities with borrowed money); or (5) engage in the purchase or sale of commodities or commodity contracts, including futures contracts (except where necessary in working out distressed investment situations or in hedging the risks associated with interest rate fluctuations), and, in such cases, only after all necessary registrations (or exemptions from registration) with the Commodity Futures Trading Commission have been obtained.

We may invest up to 100% of our assets in securities issued by CLO vehicles and in corporate debt instruments, which may be acquired directly in privately negotiated transactions or in secondary market purchases. With respect to securities we acquired directly in privately negotiated transactions, we may, for the purpose of public resale, be deemed an underwriter as that term is defined in the Securities Act. Our

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intention is to not write (sell) or buy put or call options to manage risks associated with any publicly-traded securities we may hold, except that we may enter into hedging transactions to manage the risks associated with interest rate fluctuations, and, in such cases, only after all necessary registrations (or exemptions from registration) with the Commodity Futures Trading Commission have been obtained. We also do not intend to acquire securities issued by any investment company that exceed the limits imposed by the 1940 Act. Under these limits, unless otherwise permitted by the 1940 Act, we currently cannot acquire more than 3% of the voting securities of any registered investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest, in the aggregate, in excess of 10% of the value of our total assets in the securities of one or more investment companies. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

Proxy Voting Policies and Procedures

We have delegated our proxy voting responsibility to Oxford Lane Management. The Proxy Voting Policies and Procedures of Oxford Lane Management are set forth below. The guidelines will be reviewed periodically by Oxford Lane Management and our non-interested directors, and, accordingly, are subject to change. For purposes of these Proxy Voting Policies and Procedures described below, we, our and us refers to Oxford Lane Management.

Introduction

An investment adviser registered under the Advisers Act has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, we recognize that we must vote client securities in a timely manner free of conflicts of interest and in the best interests of our clients.

These policies and procedures for voting proxies for our investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Proxy Policies

We will vote proxies relating to our portfolio securities in what we perceive to be the best interest of our clients stockholders. We will review on a case-by-case basis each proposal submitted to a stockholder vote to determine its impact on the portfolio securities held by our clients. Although we will generally vote against proposals that may have a negative impact on our clients portfolio securities, we may vote for such a proposal if there exist compelling long-term reasons to do so.

Our proxy voting decisions will be made by the senior officers who are responsible for monitoring each of our clients investments. To ensure that our vote is not the product of a conflict of interest, we will require that: (1) anyone involved in the decision making process disclose to our managing members any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (2) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

Proxy Voting Records

You may obtain information about how we voted proxies by making a written request for proxy voting information to: Oxford Lane Management, LLC, 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830.

Privacy Policy

We are committed to protecting your privacy. This privacy notice, which is required by federal law, explains privacy policies of Oxford Lane Capital Corp. and its affiliated companies. This notice supersedes any other privacy notice you may have received from Oxford Lane Capital Corp., and its terms apply both to our current stockholders and to former stockholders as well.

We will safeguard, according to strict standards of security and confidentiality, all information we receive about you. With regard to this information, we maintain procedural safeguards that comply with federal standards.

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Our goal is to limit the collection and use of information about you. When you purchase shares of our common stock, our transfer agent collects personal information about you, such as your name, address, social security number or tax identification number.

This information is used only so that we can send you annual reports, proxy statements and other information required by law, and to send you information we believe may be of interest to you.

We do not share such information with any non-affiliated third party except as described below:

It is our policy that only authorized employees of our investment adviser, Oxford Lane Management, LLC, who need to know your personal information will have access to it.
We may disclose stockholder-related information to companies that provide services on our behalf, such as record keeping, processing your trades, and mailing you information. These companies are required to protect your information and use it solely for the purpose for which they received it.
If required by law, we may disclose stockholder-related information in accordance with a court order or at the request of government regulators. Only that information required by law, subpoena, or court order will be disclosed.

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DETERMINATION OF NET ASSET VALUE

We will determine the net asset value per share of our common stock by dividing the value of our portfolio investments, cash and other assets (including interest accrued but not collected) less all its liabilities (including accrued expenses, borrowings and interest payables) by the total number of shares of our common stock outstanding on a quarterly basis. The most significant estimate inherent in the preparation of our financial statements will be the valuation of investments and the related amounts of unrealized appreciation and depreciation of investments recorded. There is no single method for determining fair value in good faith. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments we make. We will be required to specifically fair value each individual investment on a quarterly basis.

Our Board of Directors will determine the value of our investment portfolio each quarter, after consideration of our Valuation Committee's recommendation of fair value. Oxford Lane Management will compile relevant information, including a financial summary, covenant compliance review and recent trading activity in the security, if known. All available information, including non-binding indicative bids which may not be considered reliable, will be presented to the Valuation Committee to consider in making its recommendation of fair value to the Board of Directors. In some instances, there may be limited trading activity in a security even though the market for the security is considered not active. In such cases the Valuation Committee will consider the number of trades, the size and timing of each trade, and other circumstances around such trades, to the extent such information is available, in making its recommendation of fair value to the Board of Directors. We may elect to engage third-party valuation firms to provide assistance to our Valuation Committee and Board of Directors in valuing certain of our investments. The Valuation Committee will evaluate the impact of such additional information, and factor it into its consideration of fair value.

Determinations in Connection with Offerings

In connection with any future offering of shares of our common stock, our Board of Directors or a committee thereof will be required to make the determination that we are not selling shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made. Our Board of Directors will consider the following factors, among others, in making such determination:

the net asset value of our common stock disclosed in the most recent periodic report that we filed with the SEC;
our management s assessment of whether any material change in the net asset value of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recently disclosed net asset value of our common stock and ending two days prior to the date of the sale of our common stock; and
the magnitude of the difference between (i) the net asset value of our common stock disclosed in the most recent periodic report that we filed with the SEC and our management s assessment of any material change in the net asset value of our common stock since the date of the most recently disclosed net asset value of our common stock, and (ii) the offering price of the shares of our common stock in the proposed offering.

Importantly, this determination will not require that we calculate the net asset value of our common stock in connection with each offering of shares of our common stock, but instead it will involve the determination by our Board of Directors or a committee thereof that we are not selling shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made.

Moreover, to the extent that there is even a remote possibility that we may (i) issue shares of our common stock at a price below the then current net asset value of our common stock at the time at which the sale is made or (ii) trigger the undertaking (which we provide in certain registration statements we file with the SEC) to suspend the offering of shares of our common stock pursuant to this prospectus if the net asset value of our common stock fluctuates by certain amounts in certain circumstances until the prospectus is

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amended, our Board of Directors will elect, in the case of clause (i) above, either to postpone the offering until such time that there is no longer the possibility of the occurrence of such event or to undertake to determine the net asset value of our common stock within two days prior to any such sale to ensure that such sale will not be below our then current net asset value, and, in the case of clause (ii) above, to comply with such undertaking or to undertake to determine the net asset value of our common stock to ensure that such undertaking has not been triggered.

These processes and procedures are part of our compliance policies and procedures. Records will be made contemporaneously with all determinations described in this section and these records will be maintained with other records that we are required to maintain under the 1940 Act.

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DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividends and other distributions on behalf of our stockholders, unless a stockholder elects to receive cash as provided below. As a result, if our Board of Directors authorizes, and we declare, a cash distribution, our stockholders who have not opted out of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions.

No action will be required on the part of a registered stockholder to have his cash distribution reinvested in shares of our common stock. A registered stockholder may elect to receive an entire distribution in cash by notifying [ ], the plan administrator and our transfer agent and registrar, in writing so that such notice is received by the plan administrator no later than the record date for distributions to stockholders. The plan administrator will set up an account for shares acquired through the plan for each stockholder who has not elected to receive distributions in cash and hold such shares in non-certificated form. Upon request by a stockholder participating in the plan, received in writing not less than 10 days prior to the record date, the plan administrator will, instead of crediting shares to the participant s account, issue a certificate registered in the participant s name for the number of whole shares of our common stock and a check for any fractional share.

Those stockholders whose shares are held by a broker or other financial intermediary may receive distributions in cash by notifying their broker or other financial intermediary of their election.

We intend to use primarily newly issued shares to implement the plan, whether our shares are trading at a premium or at a discount to net asset value. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan. If we declare a distribution to stockholders, the plan administrator may be instructed not to credit accounts with newly-issued shares and instead to buy shares in the market if (i) the price at which newly-issued shares are to be credited does not exceed 110% of the last determined net asset value of the shares; or (ii) we have advised the plan administrator that since such net asset value was last determined, we have become aware of events that indicate the possibility of a material change in per share net asset value as a result of which the net asset value of the shares on the payment date might be higher than the price at which the plan administrator would credit newly-issued shares to stockholders. The number of shares to be issued to a stockholder is determined by dividing the total dollar amount of the distribution payable to such stockholder by the market price per share of our common stock at the close of regular trading on the valuation date for such distribution. Market price per share on that date will be the closing price for such shares on the national securities exchange on which our shares are then listed or, if no sale is reported for such day, at the average of their reported bid and asked prices. The number of shares of our common stock to be outstanding after giving effect to payment of the distribution cannot be established until the value per share at which additional shares will be issued has been determined and elections of our stockholders have been tabulated.

There will be no brokerage charges or other charges to stockholders who participate in the plan. The plan administrator s fees under the plan will be paid by us. If a participant elects by written notice to the plan administrator to have the plan administrator sell part or all of the shares held by the plan administrator in the participant s account and remit the proceeds to the participant, the plan administrator is authorized to deduct a transaction fee of $[ ] plus a per share brokerage commissions from the proceeds.

Stockholders who receive distributions in the form of stock are subject to the same federal, state and local tax consequences as are stockholders who elect to receive their distributions in cash. A stockholder s basis for determining gain or loss upon the sale of stock received in a distribution from us will be equal to the total dollar amount of the distribution payable to the stockholder. Any stock received in a distribution will have a new holding period for tax purposes commencing on the day following the day on which the shares are credited to the U.S. stockholder s account.

The plan may be terminated by us upon notice in writing mailed to each participant at least 30 days prior to any record date for the payment of any distribution by us. All correspondence concerning the plan should be directed to the plan administrator by mail at [ ] or by phone at [ ].

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations applicable to us and to an investment in our shares. This summary does not purport to be a complete description of the income tax considerations applicable to such an investment. For example, we have not described tax consequences that may be relevant to certain types of holders subject to special treatment under U.S. federal income tax laws, including stockholders subject to the alternative minimum tax, tax-exempt organizations, insurance companies, dealers in securities, a trader in securities that elects to use a market-to-market method of accounting for its securities holdings, pension plans and trusts, and financial institutions. This summary assumes that investors hold our common stock as capital assets (within the meaning of the Code). The discussion is based upon the Code, Treasury regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, possibly retroactively, which could affect the continuing validity of this discussion. We have not sought and will not seek any ruling from the Internal Revenue Service regarding this offering. This summary does not discuss any aspects of U.S. estate or gift tax or foreign, state or local tax. It does not discuss the special treatment under U.S. federal income tax laws that could result if we invested in tax-exempt securities or certain other investment assets.

A U.S. stockholder generally is a beneficial owner of shares of our common stock who is for U.S. federal income tax purposes:

- A citizen or individual resident of the United States;
- A corporation or other entity treated as a corporation, for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof (and an entity organized outside of the United States that is treated as a U.S. corporation under specialized sections of the Code);
- A trust if a court within the United States is asked to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantive decisions of the trust (or a trust that has made a valid election to be treated as a U.S. trust); or
- An estate, the income of which is subject to U.S. federal income taxation regardless of its source.

A Non-U.S. stockholder generally is a beneficial owner of shares of our common stock who is not a U.S. stockholder.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds shares of our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A prospective stockholder that is a partner of a partnership holding shares of our common stock should consult his, her or its tax advisers with respect to the purchase, ownership and disposition of shares of our common stock.

Tax matters are complicated and the tax consequences to an investor of an investment in our shares will depend on the facts of his, her or its particular situation. We encourage investors to consult their own tax advisers regarding the specific consequences of such an investment, including tax reporting requirements, the applicability of federal, state, local and foreign tax laws, eligibility for the benefits of any applicable tax treaty and the effect of any possible changes in the tax laws.

Election to be Taxed as a RIC

We intend to elect to be treated as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any income that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order to be eligible for pass-through tax treatment as a RIC, we must distribute to our stockholders, for each taxable year, at least 90% of our investment company taxable income, which is generally our net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses (the Annual Distribution Requirement).

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Taxation as a Regulated Investment Company

If we:

- qualify as a RIC; and
- satisfy the Annual Distribution Requirement,

then we will not be subject to federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years (the Excise Tax Avoidance Requirement). We generally will endeavor in each year to make sufficient distributions to our stockholders to avoid any U.S. federal excise tax on our earnings.

In order to qualify as a RIC for federal income tax purposes, we must, among other things:

- continue to qualify as a business development company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to loans of certain securities, gains from the sale of stock or other securities, net income from certain qualified publicly traded partnerships, or other income derived with respect to our business of investing in such stock or securities (the 90% Income Test); and
- diversify our holdings so that at the end of each quarter of the taxable year:
  - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
  - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses, or of certain qualified publicly traded partnerships (the Diversification Tests).

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (which may arise if we receive warrants in connection with the origination of a loan or possibly in other circumstances), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as contractual payment-in-kind, or PIK, interest (which represents contractual interest added to the loan balance and due at the end of the loan term) and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement, even though we will not have received any corresponding cash amount.

Although we do not presently expect to do so, we are authorized to borrow funds and to sell assets in order to satisfy distribution requirements. However, under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain asset coverage tests are met. See Regulation Senior Securities. Moreover, our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio and/or

(2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous.

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things: (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions; (ii) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income; (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited); (iv) cause us to recognize income or gain without a corresponding receipt of cash; (v) adversely affect the time as to when a purchase or sale of securities is deemed to occur; (vi) adversely alter the characterization of certain complex financial transactions; and (vii) produce income that will not be qualifying income for purposes of the 90% gross income test described above. We will monitor its transactions and may make certain tax elections in order to mitigate the potential adverse effect of these provisions.

Our investment in foreign securities may be subject to non-U.S. withholding taxes. In that case, our yield on those securities would be decreased. Stockholders will generally not be entitled to claim a credit or deduction with respect to non-U.S. taxes paid by us.

We anticipate that the CLO vehicles in which we invest may constitute passive foreign investment companies (PFICs). If acquire shares in a PFIC (including equity tranche investments in CLO vehicles that are PFICs), we may be subject to federal income tax on a portion of any excess distribution or gain from the disposition of such shares even if such income is distributed as a taxable dividend by us to our stockholders. Additional charges in the nature of interest may be imposed on us in respect of deferred taxes arising from any such excess distributions or gains. If we invest in a PFIC and elect to treat the PFIC as a qualified electing fund under the Code (a QEF), in lieu of the foregoing requirements, we will be required to include in income each year a our proportionate share of the ordinary earnings and net capital gain of the QEF, even if such income is not distributed to us. Alternatively, we can elect to mark-to-market at the end of each taxable year our shares in a PFIC; in this case, we will recognize as ordinary income any increase in the value of such shares, and as ordinary loss any decrease in such value to the extent it does not exceed prior increases included in our income. Under either election, we may be required to recognize in a year income in excess of our distributions from PFICs and our proceeds from dispositions of PFIC stock during that year, and we must distribute such income to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement.

If we hold more than 10% of the shares in a foreign corporation that is treated as a controlled foreign corporation (CFC) (including equity tranche investments in a CLO vehicle treated as CFC), we may be treated as receiving a deemed distribution (taxable as ordinary income) each year from such foreign corporation in an amount equal to our pro rata share of the corporation s income for the tax year (including both ordinary earnings and capital gains), whether or not the corporation makes an actual distribution during such year. This deemed distribution is required to be included in the income of a U.S. Shareholder of a CFC regardless of whether the shareholder has made a QEF election with respect to such CFC. In general, a foreign corporation will be classified as a CFC if more than 50% of the shares of the corporation, measured by reference to combined voting power or value, is owned (directly, indirectly or by attribution) by U.S. Shareholders. A U.S. Shareholder, for this purpose, is any U.S. person that possesses (actually or constructively) 10% or more of the combined voting power of all classes of shares of a corporation. If we are treated as receiving a deemed distribution from a CFC, we will be required to include such distribution in our investment company taxable income regardless of whether we receive any actual distributions from such CFC, and we must distribute such income to satisfy the Annual Distribution Requirement and the Excise Tax Avoidance Requirement.

Under Section 988 of the Code, gains or losses attributable to fluctuations in exchange rates between the time we accrue income, expenses or other liabilities denominated in a foreign currency and the time we actually collect such income or pay such expenses or liabilities are generally treated as ordinary income or loss. Similarly, gains or losses on foreign currency forward contracts and the disposition of debt obligations denominated in a foreign currency, to the extent attributable to fluctuations in exchange rates between the acquisition and disposition dates, are also treated as ordinary income or loss.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. The treatment of such gain or loss as long-term or short-term will depend on how long we held a particular warrant. Upon the exercise of a warrant acquired by us, our tax basis in the stock purchased under the warrant will equal the sum of the amount paid for the warrant plus the strike price paid on the exercise of the warrant.

The remainder of this discussion assumes that we qualify as a RIC and have satisfied the Annual Distribution Requirement.

Taxation of U.S. Stockholders

Distributions by us generally are taxable to U.S. stockholders as ordinary income or capital gains. Distributions of our investment company taxable income (which is, generally, our net ordinary income plus realized net short-term capital gains in excess of realized net long-term capital losses) will be taxable as ordinary income to U.S. stockholders to the extent of our current or accumulated earnings and profits, whether paid in cash or reinvested in additional common stock. To the extent such distributions paid by us in taxable years beginning before January 1, 2011 to non-corporate stockholders (including individuals) are attributable to dividends from U.S. corporations and certain qualified foreign corporations, such distributions (Qualifying Dividends) may be eligible for a maximum tax rate of 15%. In this regard, it is anticipated that distributions paid by us will generally not be attributable to dividends and, therefore, generally will not qualify for the 15% maximum rate applicable to Qualifying Dividends. Distributions of our net capital gains (which are generally our realized net long-term capital gains in excess of realized net short-term capital losses) made in taxable years beginning before January 1, 2011 and properly designated by us as capital gain dividends will be taxable to a U.S. stockholder as long-term capital gains that are currently taxable at a maximum rate of 15% in the case of individuals, trusts or estates, regardless of the U.S. stockholder s holding period for his, her or its common stock and regardless of whether paid in cash or reinvested in additional common stock. Distributions in excess of our earnings and profits first will reduce a U.S. stockholder s adjusted tax basis in such stockholder s common stock and, after the adjusted basis is reduced to zero, will constitute capital gains to such U.S. stockholder.

Under the dividend reinvestment plan, our stockholders who have not opted out of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions. Any distributions reinvested under the plan will nevertheless remain taxable to U.S. stockholders. A U.S. stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount of the reinvested distribution. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the U.S. stockholder s account.

We may retain some or all of our realized net long-term capital gains in excess of realized net short-term capital losses, but designate the retained net capital gain as a deemed distribution. In that case, among other consequences, we will pay tax on the retained amount, each U.S. stockholder will be required to include his, her or its share of the deemed distribution in income as if it had been actually distributed to the U.S. stockholder, and the U.S. stockholder will be entitled to claim a credit equal to his, her or its allocable share of the tax paid thereon by us. Because we expect to pay tax on any retained capital gains at our regular corporate tax rate, and because that rate is in excess of the maximum rate currently payable by individuals on long-term capital gains, the amount of tax that individual U.S. stockholders will be treated as having paid will exceed the tax they owe on the capital gain distribution and such excess generally may be refunded or claimed as a credit against the U.S. stockholder s other U.S. federal income tax obligations. The amount of the deemed distribution net of such tax will be added to the U.S. stockholder s cost basis for his, her or its common stock. In order to utilize the deemed distribution approach, we must provide written notice to our stockholders prior to the expiration of 60 days after the close of the relevant taxable year. We cannot treat any of our investment company taxable income as a deemed distribution.

As a RIC, we will be subject to the alternative minimum tax (AMT), but any items that are treated differently for AMT purposes must be apportioned between us and our stockholders and this may affect our

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stockholders AMT liabilities. Although regulations explaining the precise method of apportionment have not yet been issued by the Internal Revenue Service, we intend in general to apportion these items in the same proportion that dividends paid to each stockholder bear to our taxable income (determined without regard to the dividends paid deduction), unless we determines that a different method for a particular item is warranted under the circumstances.

For purposes of determining (1) whether the Annual Distribution Requirement is satisfied for any year and (2) the amount of capital gain dividends paid for that year, we may, under certain circumstances, elect to treat a dividend that is paid during the following taxable year as if it had been paid during the taxable year in question. If we make such an election, the U.S. stockholder will still be treated as receiving the dividend in the taxable year in which the distribution is made. However, any dividend declared by us in October, November or December of any calendar year, payable to stockholders of record on a specified date in such a month and actually paid during January of the following year, will be treated as if it had been received by our U.S. stockholders on December 31 of the year in which the dividend was declared.

If an investor purchases shares of our common stock shortly before the record date of a distribution, the price of the shares will include the value of the distribution and the investor will be subject to tax on the distribution even though economically it may represent a return of his, her or its investment.

A stockholder generally will recognize taxable gain or loss if the stockholder sells or otherwise disposes of his, her or its shares of our common stock. The amount of gain or loss will be measured by the difference between such stockholder s adjusted tax basis in the common stock sold and the amount of the proceeds received in exchange. Any gain arising from such sale or disposition generally will be treated as long-term capital gain or loss if the stockholder has held his, her or its shares for more than one year. Otherwise, it will be classified as short-term capital gain or loss. However, any capital loss arising from the sale or disposition of shares of our common stock held for six months or less will be treated as long-term capital loss to the extent of the amount of capital gain dividends received, or undistributed capital gain deemed received, with respect to such shares. In addition, all or a portion of any loss recognized upon a disposition of shares of our common stock may be disallowed if other shares of our common stock are purchased (whether through reinvestment of distributions or otherwise) within 30 days before or after the disposition.

In general, individual U.S. stockholders currently are subject to a maximum federal income tax rate of 15% on their net capital gain (i.e., the excess of realized net long-term capital gains over realized net short-term capital losses) recognized in taxable years beginning before January 1, 2011, including any long-term capital gain derived from an investment in our shares. Such rate is lower than the maximum rate on ordinary income currently payable by individuals. The maximum rate on long-term capital gains for non-corporate taxpayers is scheduled to return to 20% for tax years beginning after December 31, 2010. In addition, for taxable years beginning after December 31, 2012, individuals with income in excess of $200,000 ($250,000 in the case of married individuals filing jointly) and certain estates and trusts are subject to an additional 3.8% tax on their net investment income, which generally includes net income from interest, dividends, annuities, royalties, and rents, and net capital gains (other than certain amounts earned from trades or businesses). Corporate U.S. stockholders currently are subject to federal income tax on net capital gain at the maximum 35% rate also applied to ordinary income. Non-corporate stockholders with net capital losses for a year (i.e., capital losses in excess of capital gains) generally may deduct up to $3,000 of such losses against their ordinary income each year; any net capital losses of a non-corporate stockholder in excess of $3,000 generally may be carried forward and used in subsequent years as provided in the Code. Corporate stockholders generally may not deduct any net capital losses for a year, but may carry back such losses for three years or carry forward such losses for five years.

We will send to each of our U.S. stockholders, as promptly as possible after the end of each calendar year, a notice detailing, on a per share and per distribution basis, the amounts includible in such U.S. stockholder s taxable income for such year as ordinary income and as long-term capital gain. In addition, the federal tax status of each year s distributions generally will be reported to the Internal Revenue Service (including the amount of dividends, if any, eligible for the 15% maximum rate). Dividends paid by us generally will not be eligible for the dividends-received deduction or the preferential tax rate applicable to

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Qualifying Dividends because our income generally will not consist of dividends. Distributions may also be subject to additional state, local and foreign taxes depending on a U.S. stockholder s particular situation.

We may be required to withhold federal income tax (backup withholding) currently at a rate of 28% from all taxable distributions to any U.S. stockholder (other than a corporation, a financial institution, or a stockholder that otherwise qualifies for an exemption) (1) who fails to furnish us with a correct taxpayer identification number or a certificate that such stockholder is exempt from backup withholding or (2) with respect to whom the Internal Revenue Service notifies us that such stockholder has failed to properly report certain interest and dividend income to the Internal Revenue Service and to respond to notices to that effect. An individual s taxpayer identification number is his or her social security number. Any amount withheld under backup withholding is allowed as a credit against the U.S. stockholder s federal income tax liability, provided that proper information is provided to the Internal Revenue Service.

Taxation of Non-U.S. Stockholders

Whether an investment in the shares is appropriate for a Non-U.S. stockholder will depend upon that person s particular circumstances. An investment in the shares by a Non-U.S. stockholder may have adverse tax consequences. Non-U.S. stockholders should consult their tax advisers before investing in our common stock.

Distributions of our investment company taxable income to Non-U.S. stockholders (including interest income and realized net short-term capital gains in excess of realized long-term capital losses, which generally would be free of withholding if paid to Non-U.S. stockholders directly) will be subject to withholding of federal tax at a 30% rate (or lower rate provided by an applicable treaty) to the extent of our current and accumulated earnings and profits unless an applicable exception applies. If the distributions are effectively connected with a U.S. trade or business of the Non-U.S. stockholder, we will not be required to withhold federal tax if the Non-U.S. stockholder complies with applicable certification and disclosure requirements, although the distributions will be subject to federal income tax at the rates applicable to U.S. persons. (Special certification requirements apply to a Non-U.S. stockholder that is a foreign partnership or a foreign trust, and such entities are urged to consult their own tax advisers.)

In addition, for taxable years prior to December 31, 2009, U.S. source withholding taxes were not imposed on dividends paid by RICs to the extent the dividends were designated as interest-related dividends or short-term capital gain dividends. Under this exemption, interest-related dividends and short-term capital gain dividends generally represent distributions of interest or short-term capital gains that would not have been subject to U.S. withholding tax at the source if they had been received directly by a foreign person, and that satisfy certain other requirements. The exemption applies to dividends with respect to taxable years of RICs beginning before January 1, 2010. Although both the U.S. Senate and House of Representatives have passed a version of a bill that would extend this exception to taxable years ending prior to January 1, 2011, no assurance can be given as to whether this extension of the exemption will ultimately be enacted or whether any of our distributions will be designated as eligible for this exemption from withholding tax.

Actual or deemed distributions of our net capital gains to a stockholder that is a non-U.S. stockholder, and gains realized by a non-U.S. stockholder upon the sale or redemption of our common stock, will not be subject to U.S. federal income tax unless the distributions or gains, as the case may be, are effectively connected with a U.S. trade or business of the non-U.S. stockholder (and, if an income tax treaty applies, are attributable to a permanent establishment maintained by the non-U.S. stockholder in the United States,) or, in the case of an individual, the non-U.S. stockholder was present in the United States for 183 days or more during the taxable year and certain other conditions are met.

If we distribute our net capital gains in the form of deemed rather than actual distributions, a stockholder that is a non-U.S. stockholder will be entitled to a U.S. federal income tax credit or tax refund equal to the stockholder s allocable share of the corporate-level tax we pay on the capital gains deemed to have been distributed; however, in order to obtain the refund, the non-U.S. stockholder must obtain a U.S. taxpayer identification number and file a U.S. federal income tax return even if the non-U.S. stockholder would not otherwise be required to obtain a U.S. taxpayer identification number or file a U.S. federal income tax return.

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For a corporate non-U.S. stockholder, distributions (both actual and deemed), and gains realized upon the sale or redemption of our common stock that are effectively connected to a U.S. trade or business may, under certain circumstances, be subject to an additional branch profits tax at a 30% rate (or at a lower rate if provided for by an applicable treaty).

Under the dividend reinvestment plan, our stockholders who have not opted out of our dividend reinvestment plan will have their cash distributions automatically reinvested in additional shares of our common stock, rather than receiving the cash distributions. If the distribution is a distribution of our investment company taxable income, is not properly designated by us as a short-term capital gains dividend or interest-related dividend (assuming extension of the exemption discussed above), and it is not effectively connected with a U.S. trade or business of the non-U.S. stockholder (and, if a treaty applies, is not attributable to a permanent establishment), the amount distributed (to the extent of our current and accumulated earnings and profits) will be subject to U.S. federal withholding tax at a 30% rate (or lower rate provided by an applicable treaty) and only the net after-tax amount will be reinvested in common shares. If the distribution is effectively connected with a U.S. trade or business of the non-U.S. stockholder, generally the full amount of the distribution will be reinvested in the plan and will nevertheless be subject to U.S. federal income tax at the ordinary income rates applicable to U.S. persons. The non-U.S. stockholder will have an adjusted basis in the additional common shares purchased through the plan equal to the amount reinvested. The additional shares will have a new holding period commencing on the day following the day on which the shares are credited to the non-U.S. stockholder s account.

A Non-U.S. stockholder who is a non-resident alien individual, and who is otherwise subject to withholding of federal tax, may be subject to information reporting and backup withholding of federal income tax on dividends unless the Non-U.S. stockholder provides us or the dividend paying agent with an IRS Form W-8BEN (or an acceptable substitute form) or otherwise meets documentary evidence requirements for establishing that it is a Non-U.S. stockholder or otherwise establishes an exemption from backup withholding.

Recently enacted legislation that becomes effective after December 31, 2012, generally imposes a 30% withholding tax on payments of certain types of income to foreign financial institutions that fail to enter into an agreement with the United States Treasury to report certain required information with respect to accounts held by United States persons (or held by foreign entities that have United States persons as substantial owners). The types of income subject to the tax include U.S. source interest and dividends and the gross proceeds from the sale of any property that could produce U.S.-source interest or dividends. The information required to be reported includes the identity and taxpayer identification number of each account holder that is a U.S. person and transaction activity within the holder s account. In addition, subject to certain exceptions, this legislation also imposes a 30% withholding on payments to foreign entities that are not financial institutions unless the foreign entity certifies that it does not have a 10% or greater U.S. owner or provides the withholding agent with identifying information on each 10% or greater U.S. owner. When these provisions become effective, depending on the status of a Non-U.S. Holder and the status of the intermediaries through which they hold their units, Non-U.S. Holders could be subject to this 30% withholding tax with respect to distributions on their units and proceeds from the sale of their units. Under certain circumstances, a Non-U.S. Holder might be eligible for refunds or credits of such taxes.

Non-U.S. persons should consult their own tax advisers with respect to the U.S. federal income tax and withholding tax, and state, local and foreign tax consequences of an investment in the shares.

Failure to Qualify as a Regulated Investment Company

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates, regardless of whether we make any distributions to our stockholders. Distributions would not be required, and any distributions made in taxable years beginning before January 1, 2011 would be taxable to our stockholders as ordinary dividend income, and provided that certain holding periods and other requirements are met, could be eligible for the 15% maximum rate to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees would be eligible for the dividends-received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder s tax basis, and any remaining distributions would be treated as a capital gain. To requalify as a RIC in a

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subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that requalify as a RIC no later than the second year following the non-qualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by it during the period in which it failed to qualify as a RIC that are recognized within the subsequent 10 years, unless we made a special election to pay corporate-level tax on such built-in gain at the time of its requalification as a RIC.

DESCRIPTION OF SECURITIES

The following description is based on relevant portions of the Maryland General Corporation Law and on our charter and bylaws. This summary is not necessarily complete, and we refer you to the Maryland General Corporation Law and our charter and bylaws for a more detailed description of the provisions summarized below.

Stock

The authorized stock of Oxford Lane Capital consists of 100,000,000 shares of stock, par value $0.01 per share, all of which are initially designated as common stock. We have applied to list our common stock on the NASDAQ Global Select Market under the ticker symbol OXLC. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

The following are our outstanding classes of securities as of June , 2010:

(1) Title of Class	(2) Amount Authorized	(3) Amount Held by Us or for Our Account	(4) Amount Outstanding Exclusive of Amounts Shown Under (3)
Common stock	100,000,000		7500

Under our charter our Board of Directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the Board of Directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

Common Stock

All shares of our common stock have equal rights as to earnings, assets, voting, and dividends and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our Board of Directors and declared by us out of assets legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.

Preferred Stock

Our charter authorizes our Board of Directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. The cost of any such reclassification would be borne by our existing common stockholders. Prior to issuance of shares of each class or series, the Board of Directors is required by Maryland law and by our charter to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the Board of Directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. You should note, however, that any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that

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(1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, such preferred stock together with all other senior securities must not exceed an amount equal to 50% of our gross assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of shares of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock are in arrears by two full years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a business development company. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions. However, we do not currently have any plans to issue preferred stock.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the 1940 Act.

Our charter authorizes us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. Our bylaws obligate us, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as our director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of us in any of the capacities described above and any of our employees or agents or any employees or agents of our predecessor. In accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person s willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either, case a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation s receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

We have entered into indemnification agreements with our directors. The indemnification agreements provide our directors the maximum indemnification permitted under Maryland law and the 1940 Act.

Our insurance policy does not currently provide coverage for claims, liabilities and expenses that may arise out of activities that our present or former directors or officers have performed for another entity at our request. There is no assurance that such entities will in fact carry such insurance. However, we note that we do not expect to request our present or former directors or officers to serve another entity as a director, officer, partner or trustee unless we can obtain insurance providing coverage for such persons for any claims, liabilities or expenses that may arise out of their activities while serving in such capacities.

Certain Provisions of the Maryland General Corporation Law and Our Charter and Bylaws

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquirer to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our Board of Directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified Board of Directors

Our Board of Directors will be divided into three classes of directors serving staggered three-year terms. The initial terms of the first, second and third classes will expire in 2011, 2012, and 2013, respectively, and in each case, those directors will serve until their successors are elected and qualify. Beginning in 2011, upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified Board of Directors will help to ensure the continuity and stability of our management and policies.

Election of Directors

Our charter and bylaws provide that the affirmative vote of the holders of a plurality of the outstanding shares of stock entitled to vote in the election of directors cast at a meeting of stockholders duly called and at which a quorum is present will be required to elect a director. Pursuant to our charter our Board of Directors may amend the bylaws to alter the vote required to elect directors.

Number of Directors; Vacancies; Removal

Our charter provides that the number of directors will be set only by the Board of Directors in accordance with our bylaws. Our bylaws provide that a majority of our entire Board of Directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than one nor more than nine. Our charter provides that, at such time as we have at least three independent directors and our common stock is registered under the Securities Exchange Act of 1934, as amended, we elect to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the Board of Directors. Accordingly, at such time, except as may be provided by the Board of Directors in setting the terms of any class or series of preferred stock, any and all vacancies on the Board of Directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act.

Our charter provides that a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

Action by Stockholders

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or (unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not) by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the Board of Directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by the Board of Directors or (3) provided that the Board of Directors has determined that directors will be elected at the meeting, by a stockholder who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our Board of Directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our Board of Directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our Board of Directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meetings of Stockholders

Our bylaws provide that special meetings of stockholders may be called by our Board of Directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that certain charter amendments, any proposal for our conversion, whether by charter amendment, merger or otherwise, from a closed-end company to an open-end company and any proposal for our liquidation or dissolution requires the approval of the stockholders entitled to cast at least 80% of the votes entitled to be cast on such matter. However, if such amendment or proposal is approved by a majority of our continuing directors (in addition to approval by our Board of Directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. In either event, in accordance with the requirements of the 1940 Act, any such amendment or proposal that would have the effect of changing the nature of our business so as to cause us to cease to be a registered

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management investment company would be required to be approved by a majority of our outstanding voting securities, as defined under the 1940 Act. The continuing directors are defined in our charter as (1) our current directors, (2) those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of our current directors then on the Board of Directors or (3) any successor directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of continuing directors or the successor continuing directors then in office.

Our charter and bylaws provide that the Board of Directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of the Board of Directors shall determine such rights apply.

Control Share Acquisitions

The Maryland General Corporation Law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter (the Control Share Act). Shares owned by the acquirer, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;
one-third or more but less than a majority; or
a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquirer crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the Board of Directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations, including, as provided in our bylaws compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or

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bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Act only if the Board of Directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Control Share Act does not conflict with the 1940 Act.

Business Combinations

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder (the Business Combination Act). These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns 10% or more of the voting power of the corporation s outstanding voting stock; or
an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the Board of Directors approved in advance the transaction by which the stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation s common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our Board of Directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the Board of Directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution may be altered or repealed in whole or in part at any time; however, our Board of Directors will adopt resolutions so as to make us subject to the provisions of the Business Combination Act only if the Board of Directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Business Combination Act does not conflict with the 1940 Act. If this resolution is repealed, or the Board of Directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

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UNDERWRITING

Ladenburg Thalmann & Co. Inc. is acting as representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this Prospectus, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter s name.

Underwriter	Shares
Ladenburg Thalmann & Co. Inc.	
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the overallotment option described below) if they purchase any of the shares.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this Prospectus and some of the shares to dealers at the public offering price less a concession not to exceed $ per share. The underwriting discount of $ per share is equal to % of the initial offering price. If all of the shares are not sold at the initial offering price, the representative may change the public offering price and other selling terms. Investors must pay for any shares purchased on or before . The representative has advised us that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The underwriters hold an option, exercisable for [ ] days from the date of this prospectus, to purchase up to an additional shares at the public offering price less the underwriting discount from the Legacy Investors. The underwriters may exercise the option solely for the purpose of covering overallotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter s initial purchase commitment.

Oxford Lane Capital and each of our directors and officers has agreed that, for a period of [180] days from the date of this Prospectus, such party will not, without the prior written consent of Ladenburg Thalmann & Co. Inc., on behalf of the underwriters, offer, pledge, sell, contract to sell or otherwise dispose of or agree to sell or otherwise dispose of, directly or indirectly or hedge any shares or any securities convertible into or exchangeable for shares, provided, however, that Oxford Lane Capital may issue and sell shares pursuant to our dividend reinvestment plan. Ladenburg Thalmann & Co. Inc. in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The [180]-day period in the preceding paragraph will be extended if (i) during the last 17 days of the [180]-day period we issue an earnings release or material news or a material event relating to Oxford Lane Capital occurs or (ii) prior to the expiration of the [180]-day period, we announce that we will release earnings results during the 16-day period beginning on the last day of the [180]-day period, in which case the restrictions described in the preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event.

At our request, the underwriters have reserved up to [ ] of the shares for sale at the initial public offering price to persons who are directors, officers or employees, or who are otherwise associated with us through a directed share program. The number of shares available for sale to the general public will be reduced by the number of directed shares purchased by participants in the program. Except for certain participants who have entered into lock-up agreements as contemplated in the immediately preceding paragraph, each person buying shares through the directed share program has agreed that, for a period of [180] days from the date of this prospectus, he or she will not, without the prior written consent of Ladenburg Thalmann & Co. Inc., dispose of or hedge any shares or any securities convertible into or exchangeable for our common stock with respect to shares purchased in the program. For certain participants purchasing shares through the directed share program, the lock-up agreements contemplated in the immediately preceding paragraph shall govern with respect to their purchases. Ladenburg Thalmann & Co. Inc. in its sole discretion

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may release any of the securities subject to these lock-up agreements at any time without notice. Any directed shares not purchased will be offered by the underwriters to the general public on the same basis as all other shares offered. We have agreed to indemnify the underwriters against certain liabilities and expenses, including liabilities under the Securities Act, in connection with the sales of the directed shares.

Our shares will be listed on the NASDAQ Global Select Market under the symbol OXLC , subject to notice of issuance.

The following table shows the underwriting discounts to be paid to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters option to purchase additional shares. This offering will conform with the requirements set forth in Financial Industry Regulatory Authority Rule 2310. The sum of all compensation to the underwriters in connection with this offering of shares, including the underwriting discount, will not exceed 10% of the total public offering price of the shares sold in this offering.

	No Exercise	Full Exercise
Per Common Share	$	$
Total	$	$

Oxford Lane Capital and our investment adviser have each agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the shares. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the shares as a result of any market-making activities undertaken by any underwriter. This Prospectus is to be used by any underwriter in connection with the offering and, during the period in which a prospectus must be delivered, with offers and sales of the shares in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, Ladenburg Thalmann & Co. Inc., on behalf of the underwriters, may purchase and sell shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of shares of shares in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Covered short sales are sales of shares made in an amount up to the number of shares represented by the underwriters overallotment option. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the overallotment option. Transactions to close out the covered syndicate short position involve either purchases of shares in the open market after the distribution has been completed or the exercise of the overallotment option. The underwriters may also make naked short sales of shares in excess of the overallotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Ladenburg Thalmann & Co. Inc. repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of shares. They may also cause the price of shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the NASDAQ Global Select Market, or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our portion of the total expenses of this offering, excluding the underwriting discounts, will be approximately $.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representative may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representative will allocate shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

We anticipate that, from time to time, certain underwriters may act as brokers or dealers in connection with the execution of Oxford Lane Capital s portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

Certain underwriters may have performed investment banking and advisory services for us, our investment adviser and our affiliates from time to time, for which they have received customary fees and expenses. Certain underwriters may, from time to time, engage in transactions with or perform services for us, our investment adviser and our affiliates in the ordinary course of business.

The principal business address of Ladenburg Thalmann & Co. Inc. is 520 Madison, 9^{th} Floor, New York, New York 10022.

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CUSTODIAN, TRANSFER AND DISTRIBUTION PAYING AGENT AND REGISTRAR

Our securities are held under a custody agreement by State Street Bank and Trust Company. The address of the custodian is 225 Franklin Street, Boston, MA 02110. Computershare Trust Company, N.A. will act as our transfer agent, distribution paying agent and registrar. The principal business address of our transfer agent is 250 Royall Street, Canton, MA 02021.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we will generally acquire and dispose of our investments in privately negotiated transactions, we will infrequently use brokers in the normal course of our business. Subject to policies established by our Board of Directors, our investment adviser will be primarily responsible for the execution of the publicly traded securities portion of our portfolio transactions and the allocation of brokerage commissions. Our investment adviser does not expect to execute transactions through any particular broker or dealer, but will seek to obtain the best net results for Oxford Lane Capital, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm s risk and skill in positioning blocks of securities. While our investment adviser generally will seek reasonably competitive trade execution costs, Oxford Lane Capital will not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, our investment adviser may select a broker based partly upon brokerage or research services provided to the investment adviser and Oxford Lane Capital and any other clients. In return for such services, we may pay a higher commission than other brokers would charge if the investment adviser determines in good faith that such commission is reasonable in relation to the services provided.

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the underwriters by Blank Rome LLP, New York, New York.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

[ ], an independent registered public accounting firm, has audited our financial statements at [ ], 2010. The principal business address of our independent registered public accounting firm is [ ], [ ], [ ] [ ].

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus.

Upon the completion of this offering, we will file with or submit to the SEC annual, semi-annual and quarterly reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC s website at *http://www.sec.gov*. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing to the SEC s Public Reference Section, Washington, D.C. 20549. This information will also be available free of charge by contacting us at Oxford Lane Capital Corp., 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830, by telephone at (203) 983-5275, or on our website at *http://www.[ ].com*.

INDEX TO FINANCIAL STATEMENTS

[FINANCIAL STATEMENTS TO BE PROVIDED BY AMENDMENT]

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Shares

Oxford Lane Capital Corp.

Common Stock

[INSERT LOGO]

PRELIMINARY PROSPECTUS

, 2010

Ladenburg Thalmann & Co. Inc.

PART C OTHER INFORMATION

ITEM 25. FINANCIAL STATEMENTS AND EXHIBITS

1. Financial Statements

The following financial statements of Oxford Lane Capital Corp. (the Registrant or the Company) are included in Part A Information Required to be in the Prospectus of the Registration Statement.

INDEX TO FINANCIAL STATEMENTS

2. Exhibits

Exhibit Number	Description
a.	Amended and Restated Articles of Incorporation*
b.	Amended and Restated Bylaws*
d.1	Form of Common Stock Certificate*
e.	Dividend Reinvestment Plan*
g.	Form of Investment Advisory Agreement by and between Registrant and Oxford Lane Management, LLC*
h.	Form of Underwriting Agreement*
j.	Form of Custodian Agreement*
k.1	Form of Administration Agreement by and between Registrant and BDC Partners, LLC*
l.	Opinion of Sutherland Asbill & Brennan LLP*
n.1	Consent of Sutherland Asbill & Brennan LLP (Incorporated by reference to exhibit l hereto)*
n.2	Consent of Independent Registered Public Accounting Firm*
r.	Code of Ethics*

* To be filed by amendment.

ITEM 26. MARKETING ARRANGEMENTS

The information contained under the heading Underwriting on this Registration Statement is incorporated herein by reference.

ITEM 27. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

SEC registration fee	$	3,565
FINRA filing fee	$	5,500
NASDAQ Global Select Market		*
Printing and postage		*
Legal fees and expenses		*
Accounting fees and expenses		*
Miscellaneous		*
Total	$	*

Note: All listed amounts are estimates.

* To be provided by amendment.

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ITEM 28. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL

Immediately prior to the pricing of this offering, the outstanding common stock of Oxford Lane Capital Corp. will be owned by three individuals: Charles M. Royce, Jonathan H. Cohen and Saul B. Rosenthal, who will each own 50%, 25% and 25% of the outstanding common stock, respectively. Following the completion of this offering, each of Messrs. Royce s, Cohen s and Rosenthal s share ownership is expected to represent less than 1% of Oxford Lane Capital Corp. s outstanding common stock.

See Management, Certain Relationships and Transactions and Control Persons and Principal Stockholders in the Prospectus contained herein.

ITEM 29. NUMBER OF HOLDERS OF SECURITIES

The following table sets forth the number of record holders of the Registrant s common stock at June , 2010:

Title of Class	Number of Record Holders
Common Stock, par value $0.01 per share	3

ITEM 30. INDEMNIFICATION

Directors and Officers

Reference is made to Section 2-418 of the Maryland General Corporation Law, Article VII of the Registrant s charter and Article XI of the Registrant s Amended and Restated Bylaws.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Registrant s charter contains such a provision which eliminates directors and officers liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act of 1940, as amended (the 1940 Act).

The Registrant s charter authorizes the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant s director or officer and at the Registrant s request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Registrant s bylaws obligate the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant s director or officer and at the Registrant s request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit the Registrant to indemnify and advance expenses to any person who served a predecessor of the Registrant in any of the capacities described above and any of the Registrant s employees or agents or any employees or agents of the Registrant s predecessor. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person s willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

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Maryland law requires a corporation (unless its charter provides otherwise, which the Registrant s charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation s receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Adviser and Administrator

The Investment Advisory Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Oxford Lane Management, LLC (the investment adviser) and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of the investment adviser s services under the Investment Advisory Agreement or otherwise as an investment adviser of the Registrant.

The Administration Agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, BDC Partners, LLC and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of BDC Partners, LLC s services under the Administration Agreement or otherwise as administrator for the Registrant.

The law also provides for comparable indemnification for corporate officers and agents. Insofar as indemnification for liability arising under the Securities Act of 1933, as amended (the Securities Act) may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant has entered into indemnification agreements with its directors. The indemnification agreements are intended to provide the Registrant s directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that the Registrant shall indemnify the director who is a party to the agreement (an Indemnitee), including the advancement of legal expenses,

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if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, other than a proceeding by or in the right of the Registrant.

ITEM 31. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

A description of any other business, profession, vocation, or employment of a substantial nature in which the investment adviser, and each managing director, director or executive officer of the investment adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the sections entitled Management Board of Directors, Investment Advisory Agreement and Portfolio Management Investment Personnel. Additional information regarding the investment adviser and its officers and directors will be set forth in its Form ADV, as filed with the Securities and Exchange Commission (SEC File No. [ ]), under the Investment Advisers Act of 1940, as amended, and is incorporated herein by reference.

ITEM 32. LOCATION OF ACCOUNTS AND RECORDS

All accounts, books, and other documents required to be maintained by Section 31(a) of the 1940 Act, and the rules thereunder are maintained at the offices of:

(1) the Registrant, Oxford Lane Capital Corp., 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830;
(2) the Transfer Agent, Computershare Trust Company, N.A., 250 Royall Street, Canton, MA 02021;
(3) the Custodian, State Street Bank and Trust Company, 225 Franklin Street, Boston, MA 02110; and
(4) the investment adviser, Oxford Lane Management, LLC, 8 Sound Shore Drive, Suite 255, Greenwich, CT 06830.

ITEM 33. MANAGEMENT SERVICES

Not applicable.

ITEM 34. UNDERTAKINGS

(1) Registrant undertakes to suspend the offering of the shares of common stock covered hereby until it amends its prospectus contained herein if (a) subsequent to the effective date of this Registration Statement, its net asset value per share of common stock declines more than 10% from its net asset value per share of common stock as of the effective date of this Registration Statement, or (b) its net asset value per share of common stock increases to an amount greater than its net proceeds as stated in the prospectus contained herein.

(2) Not applicable.

(3) Not applicable.

(4) Not applicable.

(5) Registrant undertakes that:

(a) For purposes of determining any liability under the Securities Act of 1933, as amended, the information omitted from the form of prospectus filed as part of the Registration Statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant pursuant to Rule 497(h) under the Securities Act of 1933, as amended, shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(b) For purposes of determining any liability under the Securities Act of 1933, as amended, each post-effective amendment that contains a form of prospectus shall be deemed to a new registration statement relating to the securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) Not applicable.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the Township of Greenwich, in the State of Connecticut, on the 25th day of June, 2010.

OXFORD LANE CAPITAL CORP.
By:

/s/ Jonathan H. Cohen

Jonathan H. Cohen
Chief Executive Officer

POWER OF ATTORNEY

The undersigned directors and officers of Oxford Lane Capital Corp. hereby constitute and appoint Jonathan H. Cohen and Saul B. Rosenthal and each of them with full power to act without the other and with full power of substitution and resubstitution, our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below this Registration Statement on Form N-2 and any and all amendments thereto, including post-effective amendments to this Registration Statement and to sign any and all additional registration statements relating to the same offering of securities as this Registration Statement that are filed pursuant to Rule 462(b) of the Securities Act of 1933, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and thereby ratify and confirm that all such attorneys-in-fact, or any of them, or their substitutes shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement on Form N-2 has been signed by the following persons on behalf of the Registrant, and in the capacities indicated, on the 25th day of June, 2010.

Signature	Title
/s/ Jonathan H. Cohen Jonathan H. Cohen	Chief Executive Officer and Director (Principal Executive Officer)
/s/ Mark J. Ashenfelter Mark J. Ashenfelter	Chairman of the Board and Director
/s/ John Reardon John Reardon	Director
/s/ Saul B. Rosenthal Saul B. Rosenthal	President, and Director
/s/ David S. Shin	Director

David S. Shin	
/s/ Patrick F. Conroy Patrick F. Conroy	Chief Financial Officer, Chief Compliance Officer and Corporate Secretary (Principal Financial and Accounting Officer)